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## Grand Ocean Advanced Resources Company Limited 弘海高新資源有限公司

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

(Stock Code: 65)

### (1) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Placing agent



宏大證券有限公司  
Grand Cartel Securities Co. Ltd.

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A notice convening the extraordinary general meeting of the Company (the “EGM”) to be held at Suite 3103, Sino Plaza, 255-257 Gloucester Road, Hong Kong on Monday, 10 July 2017 at 11:00 a.m. is set out on pages 22 to 23 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited at [www.hkexnews.com.hk](http://www.hkexnews.com.hk) and the Company at [www.grandocean65.com](http://www.grandocean65.com).

Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

24 June 2017

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## DEFINITIONS

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

|                       |  |
|-----------------------|--|
| “Announcement”        | the announcement of the Company dated 12 May 2017 in relation to the Placing;  |
| “associates”          | has the meaning ascribed thereto under the Listing Rules;  |
| “Board”               | the board of Directors;  |
| “Business Day(s)”     | any day (not being a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours;  |
| “Company”             | Grand Ocean Advanced Resources Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 65);                       |
| “Completion”          | completion of the Placing in accordance with the terms and conditions of the Placing Agreement;  |
| “Completion Date”     | a date falling on the fifth (5) Business Day after the day on which all the conditions set out in the Placing Agreement have been fulfilled (or such later date as may be agreed between the parties to the Placing Agreement in writing); |
| “Connected person(s)” | has the meaning ascribed thereto under the Listing Rules;  |
| “Director(s)”         | the director(s) of the Company;  |
| “EGM”                 | the extraordinary general meeting of the Company to be convened and held to approve, amongst others, the Placing Agreement and the transactions contemplated thereunder, including but not limited to the grant of the Specific Mandate;   |
| “Group”               | the Company and its subsidiaries;  |
| “Hong Kong”           | the Hong Kong Special Administrative Region of the PRC;  |

## DEFINITIONS

|                                |  |
|--------------------------------|--|
| “Independent Third Party(ies)” | any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, are third parties independent of the Company and its connected persons of the Company in accordance with the Listing Rules; |
| “Latest Practicable Date”      | 22 June 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;   |
| “Listing Rules”                | The Rules Governing the Listing of Securities on the Stock Exchange;   |
| “Long Stop Date”               | 12 July 2017 (or such later date as the parties hereto may agree);   |
| “Placee(s)”                    | any individual(s), corporate, institutional investor(s) or other investor(s) procured by the Placing Agent to subscribe for any of the Placing Shares;   |
| “Placing”                      | the placing of up to 1,000,000,000 Placing Shares on a best effort basis on and subject to the terms and conditions set out in the Placing Agreement;  |
| “Placing Agent”                | Grand Cartel Securities Company Limited, a licensed corporation to carry out Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) in Hong Kong;   |
| “Placing Agreement”            | the conditional placing agreement entered into between the Company and the Placing Agent dated 12 May 2017 in relation to the Placing;   |
| “Placing Price”                | HK\$0.110 per Placing Share;   |
| “Placing Share(s)”             | a total of up to 1,000,000,000 new Shares to be placed pursuant to the Placing Agreement;  |
| “PRC”                          | the People’s Republic of China;  |
| “Share(s)”                     | ordinary share(s) with par value of HK\$0.01 each in the share capital of the Company;   |

## DEFINITIONS

|                    |   |
|--------------------|---|
| “Shareholder(s)”   | holder(s) of the issued Share(s);   |
| “Specific Mandate” | the specific mandate to be sought at the EGM for the allotment and issue of the Placing Shares; |
| “Stock Exchange”   | The Stock Exchange of Hong Kong Limited;  |
| “HK\$”             | Hong Kong dollars, the lawful currency of Hong Kong; and  |
| “%”                | percent.  |

LETTER FROM THE BOARD

**Grand Ocean Advanced Resources Company Limited**

**弘海高新資源有限公司**

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

**(Stock Code: 65)**

***Executive Directors:***

Mr. Xu Bin (*Chairman*)  
Mr. Zhang Fusheng (*Chief Executive Officer*)  
Mr. Ng Ying Kit  
Ms. Huo Lijie

***Registered office:***

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

***Independent non-executive Directors:***

Mr. Kwok Chi Shing  
Mr. Huang Shao Ru  
Mr. Chang Xuejun

***Principal place of business  
in Hong Kong:***

Suite 3103  
Sino Plaza  
255-257 Gloucester Road  
Hong Kong

24 June 2017

*To the Shareholders*

Dear Sir or Madam,

**(1) PLACING OF NEW SHARES UNDER  
SPECIFIC MANDATE;**

**AND**

**(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the Announcement in relation to the Placing. On 12 May 2017 (after trading hours of the Stock Exchange), the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Placing Agent agrees, as agent of the Company, to procure on a best effort basis not less than six Placées who and whose ultimate beneficial owner(s) (if applicable) shall be Independent Third Parties to subscribe for up to 1,000,000,000 Placing Shares at the Placing Price of HK\$0.110 per Placing Share. The Placing Shares will be issued under the Specific Mandate and the Placing will be subject to the Shareholders' approval to be sought at the EGM.

The purpose of this circular is to provide you with, among other things, (i) further information relating to the Placing; and (ii) the notice of the EGM.

## LETTER FROM THE BOARD

### THE PLACING AGREEMENT

**Date:** 12 May 2017 (after trading hours)

**Parties:** (i) the Company (as issuer); and  
(ii) Grand Cartel Securities Company Limited (as placing agent).

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

Pursuant to the terms of the Placing Agreement, the Placing Agent will receive a placing commission of 2.50% of the aggregate Placing Price for the Placing Shares actually placed by the Placing Agent. The placing commission was negotiated on arm's length basis between the Company and the Placing Agent and was determined with reference to, among other things, the prevailing commission rate in the market and the price performance of the Shares.

The terms of the Placing Agreement were arrived at after arm's length negotiations between the Company and the Placing Agent under normal commercial terms and with reference to the prevailing market conditions. The Directors consider that the terms of the Placing, including the placing commission, are fair and reasonable based on the price performance of the Shares and the Placing is in the interests of the Company and the Shareholders as a whole.

#### Placees

The Placing Shares will be placed to not less than six Placees who shall be professional, institutional or other investors independent of and not connected with the Company, the connected persons of the Company and their respective associates, and who and whose ultimate beneficial owner(s) (if applicable) are Independent Third Parties. Upon Completion, it is expected that none of the Placees will become a substantial Shareholder. If any of the Placees will become a substantial Shareholder after Completion, further announcement will be made by the Company.

#### Placing Shares

Assuming that there will be no change in the issued share capital of the Company between the Latest Practicable Date and the completion of the Placing, the maximum of 1,000,000,000 Placing Shares represent (i) approximately 198.62% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 66.51% of the issued share capital of the Company as enlarged by the allotment and issue of 1,000,000,000 Placing Shares.

The aggregate nominal value of the maximum of 1,000,000,000 Placing Shares is HK\$10,000,000.

## LETTER FROM THE BOARD

### Placing Price

The Placing Price of HK\$0.110 per Placing Share represents:

- (i) a discount of approximately 64.52% to the closing price of HK\$0.310 per Share as quoted on the Stock Exchange on 12 May 2017, being the date of the Placing Agreement;
- (ii) a discount of approximately 62.96% to the average closing price of approximately HK\$0.297 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to the date of the Placing Agreement;
- (iii) a discount of approximately 63.21% to the average closing price of approximately HK\$0.299 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days immediately prior to the date of the Placing Agreement;
- (iv) a discount of approximately 65.08% to the average closing price of approximately HK\$0.315 per Share as quoted on the Stock Exchange for the last thirty (30) consecutive trading days immediately prior to the date of the Placing Agreement;
- (v) a discount of approximately 37.85% to the theoretical price of approximately HK\$0.177 per Share based on the closing price of HK\$0.310 per Share as quoted on the Stock Exchange on 12 May 2017, being the date of the Placing Agreement;
- (vi) a discount of approximately 66.67% to the closing price of HK\$0.330 per Share as quoted on the Stock Exchange on 22 June 2017, being the Latest Practicable Date;
- (vii) a discount of approximately 40.22% to the theoretical price of approximately HK\$0.184 per Share based on the closing price of HK\$0.330 per Share as quoted on the Stock Exchange on 22 June 2017, being the Latest Practicable Date; and
- (viii) a discount of approximately 72.70% over the net asset value of approximately HK\$0.403 per Share based on the Company's audited consolidated net asset value as at 31 December 2016.

The Placing Price was arrived at after arm's length negotiations between the Company and the Placing Agent with reference to: (i) the prevailing market price of the Shares which was stagnant for a prolonged period; (ii) the unsatisfactory financial performance of the Group with continuing loss making in past five years; (iii) the potential decrease in the cash flow position of the Coal Mining Business as a result of reduction in the projected coal output in 2017 as compared to the coal output of approximately 1.94 million tonnes in 2016 (for details please refer to the section headed



## LETTER FROM THE BOARD

“Reasons for and benefits of the Placing and use of proceeds”); and (iv) the imminent funding needs for payment of short-term financial obligations of the Group and the funding requirement for the project development of the Group.

It was noted that the Shares had been trading with a significant discount to the net asset value of the Group in most of the time for a prolonged period. In light of the impairments made to the Group’s assets in the last two financial years due to the performance of its coal mining operations, the net asset value of the Group had decreased materially by approximately 63.0% from approximately HK\$548,455,000 as at 31 December 2014 to approximately HK\$202,888,000 as at 31 December 2016, and the Group’s assets may be subject to further impairment assessments upon the reduction of the projected coal output in 2017. As such, it was considered that the net asset value of the Group may not be a good reference to determine the Placing Price to encourage investments in the Company by potential investors or placees. The Placing Price, which was arrived at after arm’s length negotiations between the Company and the Placing Agent, resulted in a deep discount of approximately 72.7% over the Group’s net asset value as at 31 December 2016. The Directors consider that such discount is in line with the potential decrease in the cash flow from the coal mining operations of the Group as set out in the section headed “Reason for and benefits of the Placing and use of proceeds”.

In view of the above, and taking into consideration the benefits to be brought by the Placing as set out in the section headed “Reason for and benefits of the Placing and use of proceeds”, the Directors consider that the Placing Price and the terms of the Placing Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **Ranking of the Placing Shares**

The Placing Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Placing Shares.

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

The Placing is conditional upon the fulfilment of the following conditions:

- (i) the passing of necessary resolution(s) by the Shareholders who are entitled to vote under the Listing Rules of the relevant resolution(s) to approve the Placing Agreement and the transactions contemplated hereunder, including the grant of the Specific Mandate at the EGM;
- (ii) the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Placing Shares; and
- (iii) all necessary consents and approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated hereunder having been obtained.

on or before the Long Stop Date.

## LETTER FROM THE BOARD

If the above conditions are not satisfied on or before the Long Stop Date, all obligations of the Placing Agent and of the Company under the Placing Agreement shall cease and determine and neither the Placing Agent nor the Company shall have any claim against the other in relation to the Placing Agreement (save in respect of (i) any antecedent breach of any obligation under the Placing Agreement; and (ii) any liabilities in respect of the representations and warranties made by the Company, indemnity, reimbursements and undertakings by the Placing Agent).

### **Completion**

Completion shall take place on the Completion Date, being a date falling on the fifth (5) Business Day after the day on which all the conditions set out in the Placing Agreement have been fulfilled (or such other date as may be agreed between the parties to the Placing Agreement in writing).

### **Application for listing**

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

### **Specific Mandate to issue the Placing Shares**

The Placing Shares will be issued under the Specific Mandate to be sought and approved by the Shareholders at the EGM.

### **Termination**

The Placing Agent may, in its reasonable opinion, after consultation with the Company, terminate the Placing Agreement by notice in writing to the Company at any time up to 9:00 a.m. on the Completion Date if:

- (i) there is any change in national, international, financial, exchange control, political, economic conditions in Hong Kong which in the reasonable opinion of the Placing Agent would be materially adverse in the consummation of the Placing; or
- (ii) there is any breach of the warranties, representations and undertakings given by the Company in the Placing Agreement and such breach is considered by the Placing Agent on reasonable grounds to be material in the context of the Placing; or
- (iii) there is any material change (whether or not forming part of a series of changes) in market conditions which in the reasonable opinion of the Placing Agent would materially and prejudicially affect the Placing or makes it inadvisable or inexpedient for the Placing to proceed; or

## LETTER FROM THE BOARD

- (iv) any statement contained in (a) the Announcement, this circular or (b) the previous announcements and circulars issued by the Company since the publication of the annual report of the Company for the year ended 31 December 2016 has become or been discovered to be untrue, incorrect or misleading in any material respect which in the opinion of the Placing Agent would be materially adverse in the consummation of the Placing; or
- (v) there is any suspension of dealings in the Shares on the Stock Exchange for more than five consecutive Business Days (other than as a result of or in connection with the Placing); or
- (vi) any event of force majeure (being an event beyond the control of the parties hereto and which is unforeseeable or unavoidable), including but without limiting the generality hereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out, occurs which prevents the performance of the contractual obligations of the parties hereunder.

Upon termination of the Placing Agreement as described above, all liabilities of the parties to the Placing Agreement shall cease and determine and no party thereto shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Placing Agreement save in respect of (i) any antecedent breach of any obligation under the Placing Agreement; and (ii) any liabilities in respect of the representations and warranties made by the Company, indemnity, reimbursements and undertakings by the Placing Agent.

The Directors are not aware of the occurrence of any of the above events as at the Latest Practicable Date.

## LETTER FROM THE BOARD

### CHANGES IN SHAREHOLDING STRUCTURE

Assuming there is no change in the share capital of the Company from the Latest Practicable Date up to the Completion other than the allotment and issue of the Placing Shares, the shareholding structure of the Company as a result of the Placing is as follows:

| Name of Shareholders                          | As at the Latest Practicable Date |         | Immediately upon completion of the Placing |         |
|---|-----------------------------------|---------|--|---------|
|   | Number of issued Shares           | %       | Number of issued Shares                    | %       |
| Mr. Xu Bin and his associates ( <i>Note</i> ) | 156,154,315                       | 31.02%  | 156,154,315                                | 10.39%  |
| <i>Public Shareholders</i>                    |                                   |         |  |         |
| The Placees                                   | –                                 | –       | 1,000,000,000                              | 66.51%  |
| Other Shareholders                            | 347,322,851                       | 68.98%  | 347,322,851                                | 23.10%  |
| Total:  | 503,477,166                       | 100.00% | 1,503,477,166                              | 100.00% |

*Note:* Mr. Xu Bin (“**Mr. Xu**”) is an executive Director and the Chairman of the Company. His shareholding includes 24,365,629 Shares by Mr. Xu directly and 131,788,686 Shares through Hong Kong Hang Kei Company Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly owned by Mr. Xu.

Upon Completion, the maximum dilution to the existing Shareholders is approximately 66.51%, represents the decrease in the shareholding interest of all the existing Shareholders in the Company from 100% to approximately 33.49% upon Completion, assuming that the maximum number of 1,000,000,000 Placing Shares will be placed under the Placing. The shareholding interest of Mr. Xu will be diluted from approximately 31.02% to approximately 10.39% and the shareholding interests of the existing public Shareholders will be diluted from approximately 68.98% to approximately 23.10%. Notwithstanding that the Placing may have a substantial dilution effect to the existing Shareholders, the Director believe that the dilution effect is justifiable taking into account the benefits arising from the Placing as set out in the paragraph headed “Reasons for and benefits of the Placing and use of proceeds” above and that the net proceeds from the Placing could be applied to satisfy the forthcoming financing needs of the Group and improve the financial position of the Company.

### FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

The Company had not conducted any fund raising activities involving the issue of its equity securities in the 12 months immediately preceding the date of the Placing Agreement up to the Latest Practicable Date.

### REASONS FOR AND BENEFITS OF THE PLACING AND USE OF PROCEEDS

The Group is principally engaged in (i) the production and sales of coal (the “**Coal Mining Business**”); and (ii) the provision of low-rank coal upgrading services (the “**Coal Upgrading Business**”) in the PRC.

## LETTER FROM THE BOARD

Assuming the Placing is successfully completed, the gross proceeds of the Placing will be HK\$110.0 million. The net proceeds of the Placing, after deducting relevant expenses (including but not limited to placing commission, legal and professional expenses and disbursements), are estimated to be approximately HK\$106.8 million, representing a net issue price of approximately HK\$0.107 per Placing Share. The Company intends to apply the net proceeds arising from Placing in the following manner:

- (i) approximately HK\$45.0 million will be used for the settlement of the construction payables which was due for more than 2 years, comprised approximately HK\$20.5 million from the Coal Mining Business and approximately HK\$24.5 million from the Coal Upgrading Business. It is expected that further delay in the settlement of the above may affect the operations of the Coal Mining Business and the commencement of production of the Coal Upgrading Business;
- (ii) approximately HK\$25.0 million will be applied to the Coal Upgrading Business for the commencement of production of upgraded coal, covering related expenses including:
  - (a) approximately HK\$17.5 million (approximately RMB15.7 million) for the payment of the net land premium to obtain the land use right certificates (after deducting the subsidies to be provided by local government authority to the Coal Upgrading Plant (as defined hereafter) upon payment of land premium);
  - (b) approximately HK\$1.5 million for the purchase of property, plant and equipment;
  - (c) approximately HK\$2.2 million for the procurement of raw materials;
  - (d) approximately HK\$1.6 million for utilities and sewage treatment; and
  - (e) approximately HK\$2.2 million for staff costs and other administrative expenses.
- (iii) approximately HK\$8.0 million will be utilized for the repayment of the current portion of loans due to the non-controlling shareholders of Inner Mongolia Jinyuanli (as defined hereafter) before the end of 2017, such loans included the unpaid fees for the leasing of the station platform for the transportation of coals of Inner Mongolia Jinyuanli by railway and the use of coal loading and unloading services. It is expected that additional fees in an amount of approximately HK\$4.0 million will be incurred in 2017; and
- (iv) approximately HK\$28.8 million will be applied as the general working capital of the Company, covering administrative expenses including staff costs, rental expenses, professional fees and other corporate expenses.

## LETTER FROM THE BOARD

The Group recognized revenue of approximately HK\$264,392,000 from the Coal Mining Business for the financial year ended 31 December 2016, which accounted for 100% of the Group's total revenue.

Over the past few years, there were changes in the policies of the PRC coal industry regarding the country's coal supply reform in resolving excess coal production capacities of the PRC. In 2016, there were two major policies released which affected the production capacities of coal production enterprises. On 3 May 2016, the Coal Industrial Bureau (煤炭工業局) of the PRC released the notice "Nei Mei Ju Zi (2016) No. 63" in relation to the reduction of the annual working days of the coal production enterprises from 330 days to 276 days effective from 1 May 2016, resulted in a decrease of approximately 16% in the production capacities of coal production enterprises. Later on 21 November 2016, the Inner Mongolia Autonomous Region Economic and Information Technology Commission (內蒙古自治區經濟和信息化委員會) released the notice "Nei Jing Xin Ban Zi (2016) No. 409", allowed the annual working days of the coal production enterprises to be temporarily resumed to 330 days during the period from 21 November 2016 to 30 May 2017. The coal production enterprises were therefore required to change their production plans accordingly.

It had come to the attention of the Board the potential impact to be brought by the changing policies of the PRC coal industry. In April 2015, Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited ("**Inner Mongolia Jinyuanli**"), an indirect non-wholly owned subsidiary of the Company, applied to the Land and Resources Bureau of Huolinguole City (霍林郭勒市國土資源局) to increase its annual production capacity from 1.20 million tonnes to 1.80 million tonnes (the "**Application**") when they fulfilled the requirements on the machineries and equipment for such increase in production capacity. However, based on the understandings of the management of Inner Mongolia Jinyuanli, the Land and Resources Bureau of Huolinguole City was still reluctant to grant the approval of the Application as at the Latest Practicable Date due to the changing industry policies and the country's reform in coal supply. As a result, the Application has been pending for over 2 years.

In view of the tightening industry policies on coal production capacity, as set out in the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**"), the management of Inner Mongolia Jinyuanli has lowered the projected annual coal output of Inner Mongolia Jinyuanli to 1.40 million tonnes in order to comply with relevant policies of the PRC coal industry. If the approval of the Application would not be granted in 2017, the production capacity of Inner Mongolia Jinyuanli may have to be further reduced subject to the policies of the PRC coal industry which may change from time to time. As such, it is expected that the coal output in 2017 will be substantially lower than in 2016 of approximately 1.94 million tonnes. Based on the assessment of the Company, such reduction in coal output will cause adverse impact to the Group's cashflow and additional fundings will be required to strengthen the liquidity position of the Group.

## LETTER FROM THE BOARD

Furthermore, as set out in the 2016 Annual Report, the Group's coal upgrading plant located at Xilinhaote City, Inner Mongolia, the PRC (the "Coal Upgrading Plant") is targeted to commence commercial production in the second half of 2017, subject to, among others, the readiness of funding to fulfill all the conditions, including the obtaining of land use right certificates and the purchase additional property, plant and equipment, required for the commercial production of the coal upgrading production with annual capacity of 500,000 tonnes of upgraded coal output, which had yet been done due to lack of working capital that could be funded by the Group's internal resources. It is expected to take around 3 months' time to obtain the land use right certificates and around 2 months' time to purchase additional property, plant and equipment. A total capital expenditure of approximately HK\$19.0 million is expected to be incurred in the next 18 months to fulfill the abovementioned conditions based on the current business plan of the Coal Upgrading Business.

The Group's financial and liquidity position remained tight with reported consecutive net losses for the last five financial years ended 31 December 2016 and net current liabilities of HK\$84.7 million as at 31 December 2016 and reported loss attributable to owners of the Company for each of the year ended 31 December 2015 and 31 December 2016 was approximately HK\$170.8 million and HK\$120.3 million respectively.

The current liabilities of the Group as at 31 December 2016 was approximately HK\$209.3 million, which comprised accrued charges and other payables of approximately HK\$177.2 million (of which HK\$52.5 million are overdue construction payables for the Coal Mining Business and the Coal Upgrading Business) as well as other loans of HK\$25.2 million and HK\$6.9 million. The current assets of the Group as at 31 December 2016 of approximately HK\$124.6 million, which mainly comprised trade and other receivables of approximately HK\$7.7 million, inventories of approximately HK\$7.4 million, cash and bank balances of approximately HK\$100.4 million, of which restricted bank deposits amounted to approximately HK\$7.1 million.

The cash and bank balances of the Group decreased to approximately HK\$20.0 million as at 30 April 2017 (including restricted bank deposits amounted to approximately HK\$7.2 million), principally because of the repayment of other loans of approximately HK\$26.4 million due during the period and tax payables of approximately HK\$41.3 million outstanding as at 31 December 2016. As at the Latest Practicable Date, the cash and bank balance of the Group was approximately HK\$20.4 million comprising of: (i) approximately HK\$5.3 million in the Company's bank account in Hong Kong; and (ii) approximately of HK\$15.1 million in the bank accounts of the Group's PRC subsidiaries (including restricted bank deposits of approximately HK\$7.2 million).

## LETTER FROM THE BOARD

The following tables illustrate the extract of the Group's liabilities position as at 31 December 2016 and the Latest Practicable Date:

| Current liabilities (due in 12 months)                               | As at<br>31 December<br>2016<br><i>HK\$ million</i> | As at<br>the Latest<br>Practicable<br>Date<br><i>HK\$ million</i> |
|--|---|---|
| 1. Accrued charges and other payables                                |   |   |
| (i) Construction payables ( <i>note 1(i)</i> )                       |   |   |
| (a) overdue for over 2 years   | 45.0  | 48.0 <sup>(note 1(ii))</sup>                                      |
| (b) due within one to two years                                      | 7.5   | 7.5   |
|  | 52.5  | 55.5  |
| (ii) Receipt in advance  | 28.5  | 53.8  |
|  | 28.5  | 53.8  |
| (iii) Other payables ( <i>note 2</i> )                               |   |   |
| (a) interests on other loans   | 1.5   | 0.4   |
| (b) other tax payables   | 41.8  | 4.8   |
| (c) accrued salaries   | 15.4  | 9.6   |
| (d) provision for staff social insurance                             | 31.4  | 31.4  |
| (e) legal and professional fees                                      | 3.5   | 3.5   |
| (f) staff advances, accrued utilities, rental<br>and other expenses  | 2.6   | 2.6   |
|  | 96.2  | 52.3  |
| Sub-total  | 177.2   | 161.6   |
| 2. Other loans ( <i>note 3</i> )                                     |   |   |
| (a) due within one year  | 25.2  | –   |
| Sub-total  | 25.2  | –   |
| 3. Due to non-controlling shareholder<br>of Inner Mongolia Jinyuanli |   |   |
| (a) interests on loan from Inner Mongolia Jinyuanli                  | 4.9   | 4.9   |
| (b) payables for leasing of the<br>station platform                  | 2.0   | 2.0 <sup>(note 4)</sup>   |
| Sub-total  | 6.9   | 6.9 <sup>(note 4)</sup>   |
| <b>Total</b>   | <b>209.3</b>  | <b>168.5</b>  |
| <b>Intended repayment amount from<br/>the Placing proceeds</b>       |   | <b>53.0</b>   |



## LETTER FROM THE BOARD

| Non-current liabilities (due after 12 months)              | As at<br>31 December<br>2016<br><i>HK\$ million</i> | As at<br>the Latest<br>Practicable<br>Date<br><i>HK\$ million</i> |
|--|---|---|
| 1. Due to a director ( <i>note 5</i> )                     |   |   |
| (a) loans (repayable in year 2018)                         | 19.1  | 18.1  |
| (b) interests on loan (repayable by end of year 2018)      | 1.1   | 1.1   |
| Sub-total  | 20.2  | 19.2  |
| 2. Other loans ( <i>note 3</i> )                           |   |   |
| (a) repayable by end of year 2018                          | 9.2   | 9.2   |
| Sub-total  | 9.2   | 9.2   |
| 3. Deferred revenue  | 2.2   | 2.2   |
| Sub-total  | 2.2   | 2.2   |
| 4. Deferred tax liabilities                                | 28.6  | 28.6  |
| Sub-total  | 28.6  | 28.6  |
| <b>Total</b>   | 60.2  | 59.2  |
| <b>Intended repayment amount from the Placing proceeds</b> |   | Nil   |

*Notes:*

1. (i) The construction payables of approximately HK\$52.5 million as at 31 December 2016 and approximately HK\$55.5 million as at the Latest Practicable Date mainly comprise: (i) the construction and equipment contracts entered into between Inner Mongolia Jinyuanli and over 100 independent contractors and suppliers for the construction and resumption of operations of the coal mine in the year 2013, such outstanding construction payables of approximately of HK\$23.5 million of the Coal Mining Business has been overdue for over 2 years; and (ii) the constructions costs under the building construction contracts entered into between the Xilinhaote City Guochuan Energy Technology Development Company Limited, an indirect wholly owned subsidiary of the Company (“Xilinhaote Guochuan”) and over 50 independent contractors and suppliers in the total amount of approximately HK\$24.5 million for the construction of the superstructure and production facilities in the year 2014.
- (ii) The overdue amount for over 2 years was approximately HK\$45.0 million and HK\$48.0 million as at 31 December 2016 and as at Latest Practicable Date. The increment of approximately HK\$3.0 million overdue amount for over 2 years is attributable to an addition of approximately HK\$4.3 million outstanding construction payables which became overdue for over 2 years during the period from 31 December 2016 to the Latest Practicable Date, further, a repayment of approximately HK\$1.3 million was made during the period. The Company intends to use the Placing proceeds to repay the majority of overdue amount of approximately HK\$45.0 million and intends to repay the remaining overdue construction payables of approximately HK\$3.0 million by the cashflow to be generated from the Coal Mining Business in 2nd half of year 2017.
2. Other payables mainly include interests on other loans (as set out in note 3 below) from Independent Third Parties, accrued salaries and other tax payables. Other tax payables include value added-tax and other income tax etc. Repayment of interests on other loans and other tax payables of approximately HK\$1.2 million and HK\$41.3 million was made subsequent to 31 December 2016, respectively.

## LETTER FROM THE BOARD

3. Other loans mainly represent the outstanding loans owing by Xilinhaote Guochuan to three Independent Third Parties for its development and construction in the amount of approximately HK\$34.4 million as at 31 December 2016 since year 2014, comprising (i) the current portion of the other loans of approximately HK\$25.2 million which was repaid in January 2017; and (ii) the non-current portion of the other loans of approximately HK\$9.2 million (mainly owing to Jilin Chi Yan Trading Limited# (吉林省馳研經貿有限公司) in the amount of HK\$8.8 million).
4. As at the Latest Practicable Date, approximately HK\$2.0 million fees for the leasing of the station platform were incurred, it is expected that additional fees in an amount of approximately HK\$2.0 million will be incurred before 31 December 2017. As such, proceeds of approximately HK\$8 million from the Placing is allocated for the payment.
5. Repayment of the due to a director of HK\$1.0 million was made subsequent to 31 December 2016.

Given that (i) the total current liabilities as the Latest Practicable Date of approximately HK\$168.5 million; (ii) the Group reported net current liabilities of approximately HK\$84.7 million as at 31 December 2016; and (iii) the current cash and liquidity position of the Group, the Board considers that the utilization of the net proceeds of the Placing for the settlement part of the overdue payables and current portion of loans will improve the overall working capital position of the Group and thus, the Group will turnaround from net current liabilities to net current assets and ease its short term financial stress. In addition, the existing cash and bank balances of the Group are principally maintained in the PRC to meet its working capital requirement in the PRC, the Directors consider that additional funding is required for the general working capital of the Group in Hong Kong.

The expected funding needs of the Group in the next 12 months from the Latest Practicable Date is prepared based on the following factors:

- (i) The expected decrease in the cash flow generated from operating activities of the Coal Mining Business in the first half of 2017 due to the adjustment of the coal production plan during the period; and the possible decrease in the cash flow generated from operating activities for 2017 full year as a result of the reduction in the coal production output of Inner Mongolia Jinyuanli in accordance with the adjusted coal production plant. As at the Latest Practicable Date, Inner Mongolia Jinyuanli produced approximately 216,000 tonnes of coal, which was significantly lower than the coal produced in the same period in 2016 of approximately 583,000 tonnes. This was mainly due to the adjustment of the coal production plan following the Board's decision to adjust the annual coal production output and accordingly the manpower in order to comply with the relevant policies of the PRC coal industry in the second quarter of 2017. As at the Latest Practicable Date, the Coal Mining Business recorded a net cash outflow from operating activities of approximately HK\$42.5 million in 2017. As set out in the section headed "Reasons for and benefits of the Placing and use of proceeds", the projected production capacity of Inner Mongolia Jinyuanli in 2017 had reduced to 1.40 million tonnes and would be further reduced if the Application would not be granted, based on the Board's assessment on the current circumstances, the cash flow from the operating activities of the Coal Mining Business would shrink by 30-40% for the financial year ending 31 December 2017 as compared to approximately HK\$86.9 million for the Group for the financial year ended 31 December 2016;

# For identification purpose only

## LETTER FROM THE BOARD

- (ii) the repayment of construction payables from the Coal Mining Business and the Coal Upgrading Business in order to assure normal operations of existing coal production and future commencement of the production of upgraded coal in the second half of 2017 under the circumstance as stated in (i) above;
- (iii) the inevitable expenses to be incurred and payable for the leasing of the station platform of Inner Mongolia Jinyuanli under the circumstance as stated in (i) above;
- (iv) the minimum funding needs for the Coal Upgrading Business to commence its production in the second half of 2017. Future capital expenses in relation to the further expansion of the Coal Upgrading Business will be financed by the cash flows to be generated from the sale of the upgraded coals produced upon commencement of production;
- (v) the unlikeliness for the Group to obtain bank financings or other sources of fundings in the foreseeable future – the Group had approached not less than 6 domestic banks, credit cooperatives and guarantee corporations in the PRC to seek bank and/or project financings for the Coal Upgrading Business since 2013, however, none of these potential financiers showed positive feedbacks due to their internal policies of not providing debts to non state-owned enterprise engaged in coal related business. Based on the understandings of the management, such feedbacks were owing to the State Government of China's determination to rectify the severe environment pollution problems by reducing the country's total coal output, which caused big barriers for the Coal Upgrading Plant to seek financial supports from PRC domestic banks and other PRC financial institutions; and
- (vi) the current financial position of the Company and the required working capital of the Company in the next 12 months from the Latest Practicable Date.

Based on the above, the Company considers that the proceeds from the Placing will be able to satisfy the Group's funding needs for the next 12 months from the Latest Practicable Date.

As disclosed in the annual reports of the Group in the past few years, the Group normally relied on internally generated cash flow, financings from its shareholder and equity fund raisings to finance the business operations of the Group. Notwithstanding the established track record of the Group's coal related business, the PRC banks are not willing to offer any bank facilities to finance the coal related business considering the financial position of the Group and the current policies of the PRC banks of not providing any project financings to coal related business.

Due to the adjustment of the coal production plan of Inner Mongolia Jinyuanli following the Board's decision to adjust the annual coal production output and accordingly the manpower in order to comply with the relevant policies of the PRC coal industry in the second quarter of 2017, the pressure on funding has become more imminent and is sooner than expected.

## LETTER FROM THE BOARD

In March 2017, the Directors had approached the substantial Shareholder of the Company to seek possible financial assistance. On 7 March 2017, the substantial Shareholder provided a letter of undertaking to provide an unsecured financial facility to the Company in a maximum amount of HK\$100,000,000, which would be financed by a self-owned property (the “**Property**”) of the substantial Shareholder. Besides, he had considered to raise sufficient funding by way of remortgaging the Property; however, the size of funding that could be raised this way will not be sufficient for the Group’s funding needs. As such, the substantial Shareholder has taken steps in an attempt to realise the Property in March 2017 in order to have the funding readily available in the event of a shortage in working capital of the Group upon the Company’s request. Due to the relative low liquidity characteristic for luxurious property market, the Directors noted that it would take longer than expected time to sell the Property in order to have the funding in place to be provided to the Company. As at the Latest Practicable Date, the Property had not been sold successfully. Furthermore, the Directors also considered the interests burden to the Company in seeking financial assistance from the substantial Shareholder. The Directors are of the view that such mean of fundraising will increase the gearing level of the Group, and the related financial costs may create further pressure to the Group’s cash flow in future. Therefore, the Directors intend to seek funding by the Placing, which will avoid increase of the Group’s liabilities and financial costs.

The Board has considered other fund raising alternatives such as debt financing, rights issue or open offer. However, the Board considers debt financing is not the most appropriate method to the Group currently as debt financing is not available for coal related project as mentioned above, it also came to the attention of the Board that the prospects of the Group’s future cash flow from operating activities may not enable the Group to repay the debt raised. As regards to the viability of a rights issue or an open offer, the Directors had approached five potential underwriters (including the substantial Shareholder of the Company) but none of them have interests in underwriting the new Shares to be issued in light of the Group’s financial position and the price performance of the Shares. The Board is of the view that it would be difficult to identify an underwriter for a sizeable rights issue or an open offer of the Company in light of its latest financial position. The Board further considers that a rights issue or an open offer would incur higher administrative cost including the engagement of professional and the preparation of relevant documents as compared to the Placing. Furthermore, the Placing can be completed within a relatively shorter period subject to the Shareholders’ approval as compared to that of a rights issue or an open offer. As the Company wishes to obtain immediate capital for its business needs, the Directors consider that the Placing is an efficient way of financing given no securities or collateral would be given under the Placing.

In the course of this fund raising exercise, the Company had approached three securities firms for other fund raising opportunities other than the Placing Agent. However, none of them showed interest in providing underwriting services nor any fund raising exercises of the Company given the (i) financial performance of the Group in the past few years; (ii) price performance of the Shares; and (iii) the size of the fundraising as compared to the market capitalisation of the Company. In view of the circumstances, the Directors consider that it may not be possible to procure underwriter(s) for pre-emptive issues on acceptable terms under the prevailing market conditions.

## LETTER FROM THE BOARD

The Directors had attempted to bargain for higher placing price and therefore reducing the number of the Placing Shares. However, during the negotiation with the Placing Agent, in view of the funding size as compared to the recent market capitalization of the Company, as well as the liquidity of the Shares in the past few years, it was considered to cause difficulties in divesting the Placing Shares in the absence of significant discount.

In the circumstance that none of the other securities firms approached by the Directors were willing to conduct fundraisings for the Company, the terms of the Placing are currently the best available terms the Directors could sought.

In view of the reduction in the coal production output of Inner Mongolia Jinyuanli in 2017, Inner Mongolia Jinyuanli may not be able to generate sufficient cash flow for timely repayment of: (i) its construction payables which have been due for over 2 years; and (ii) the fees for the leasing of the station platform as an important part of logistics for coal delivery. The failure in repaying these short-term debts and cash flow deficit would potentially cause a prolonged suspension of the operations of the Coal Mining Business.

On the other hand, the Group has postponed the production timetable of the Coal Upgrading Plant due to lack of working capital that could be funded by its internal resources. The part of the proceeds from the Placing to be applied for the commencement of production of upgraded coal would procure the Group to diversify its source of cash flow, and mitigate the business risks associated with the Coal Mining Business brought by the changing policies of the coal industry of the PRC.

The Board considers this fundraising activities will strengthen the Group's financial position and provide sufficient working capital for its funding needs in the next 12 months to sustain its business operations and development. Upon Completion of the Placing, the Group will recover from a net current liabilities position to a net current assets position, furthermore, following the management's decisions to adjust the production plan of the Coal Mining Business, the Directors consider that the material uncertainties relating to the going concern of the Group's business, which include the legal compliance of the Group's Coal Mining Business and adequacy of fundings, would be able to resolve in foreseeable future.

Taking into account the lack of other financing alternatives and the Placing will allow the Company to raise the needed funds at a reasonable cost to support the Group's existing operations and improve its overall working capital position, the Directors believe that the Placing is in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE BOARD

### GENERAL

The Placing Shares will be allotted and issued under the Specific Mandate and the Placing will be subject to the Shareholders' approval at the EGM.

### EGM

The EGM will be held to consider and, if thought fit, pass the requisite resolution to approve, among other things, the Placing Agreement and the grant of the Specific Mandate for the issue and allotment of the Placing Shares pursuant to the Placing Agreement by way of poll. A notice convening the EGM to be held at Suite 3103, Sino Plaza, 255-257 Gloucester Road, Hong Kong on Monday, 10 July 2017 at 11:00 a.m. is set out on pages 22 to 23 of this circular.

The form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company at [www.grandocean65.com](http://www.grandocean65.com). Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Company's share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Delivery of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so desire.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes for the Shareholders at a general meeting must be taken by poll. As such, the resolution to be proposed at the EGM will be put to vote by way of poll.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder is required to abstain from voting when casting votes on the resolution at the EGM in accordance with the Listing Rules.

**Shareholders and potential investors of the Company should be aware that Completion is subject to fulfillment to the conditions and the termination clauses set out in the Placing Agreement. As the Placing may or may not proceed, Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.**

## LETTER FROM THE BOARD

### RECOMMENDATION

The Board considers that the terms of the Placing Agreement are on normal commercial terms, and the Placing Agreement, the grant of the Specific Mandate and the transactions contemplated respectively thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly the Board recommends the Shareholders to vote in favour of the relevant resolution at the EGM.

### RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

Yours faithfully

For and on behalf of the Board

**Grand Ocean Advanced Resources Company Limited**

**Xu Bin**

*Chairman and Executive Director*

NOTICE OF EGM

**Grand Ocean Advanced Resources Company Limited**

**弘海高新資源有限公司**

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

**(Stock Code: 65)**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (“EGM”) of Grand Ocean Advanced Resources Company Limited (the “**Company**”) will be held at Suite 3103, Sino Plaza, 255-257 Gloucester Road, Hong Kong on Monday, 10 July 2017 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

**ORDINARY RESOLUTION**

“**THAT:**

- (a) the placing agreement (the “**Placing Agreement**”) entered into between the Company and Grand Cartel Securities Company Limited (the “**Placing Agent**”) dated 12 May 2017 in relation to the placing on the best effort basis of up to 1,000,000,000 new shares (the “**Placing Shares**”) with par value of HK\$0.01 each (each a “**Share**”) in the capital of the Company at HK\$0.110 per share, a copy of the Placing Agreement having been produced to the EGM and marked “A” and initialed by the chairman of the EGM for the purpose of identification, and the transaction contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the directors of the Company be and are hereby granted a specific mandate to exercise all the powers of the Company to allot and issue the Placing Shares, subject to and in accordance with the terms and conditions set out in the Placing Agreement; and
- (c) any one director of the Company be and is hereby authorised to sign, execute, perfect and deliver all such documents and deeds, and do all acts, matters and things, as the case may be in his/her discretion consider desirable or expedient to give effect to the Placing Agreement and all the transactions contemplated thereunder as well as in relation to the allotment, issue and admission for trading of the Placing Shares and to agree to such variation, amendment or waiver as are, in the opinion of such director of the Company, in the interest of the Company provided that such variation, amendment or waiver shall not be fundamentally different from the terms as provided in the Placing Agreement.”

Yours faithfully

For and on behalf of the Board

**Grand Ocean Advanced Resources Company Limited**

**Xu Bin**

*Chairman and Executive Director*

Hong Kong, 24 June 2017



## NOTICE OF EGM

**Registered office:**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

**Principal place of business  
in Hong Kong:**

Suite 3103  
Sino Plaza  
255-257 Gloucester Road  
Hong Kong

*As at the date of this notice, the Board comprises four executive Directors, namely Mr. Xu Bin (Chairman), Mr. Zhang Fusheng (Chief Executive Officer), Mr. Ng Ying Kit and Ms. Huo Lijie; and three independent non-executive Directors, namely Mr. Kwok Chi Shing, Mr. Huang Shao Ru and Mr. Chang Xuejun.*

**Notes:**

1. A shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his/her behalf. A proxy need not be a shareholder of the Company but must be present in person at the EGM to represent the shareholder. A shareholder 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 EGM. If more than one proxy is so appointed, the appointment shall specify the number of Shares in respect of which each such proxy is so appointed.
2. Where there are joint registered holders of any Shares, any one of such joint holders may vote at the EGM (or at any adjournment thereof), either in person or by proxy, in respect of such Shares as if he/she were solely entitled thereto; but if more than one of such joint holders are present at the EGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM or any adjournment thereof.
4. In order to be eligible to attend and vote at the EGM, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 4 July 2017, being the record date for the purpose of determination of entitlement to attend and vote at the EGM.
5. A form of proxy in respect of the EGM is enclosed. Whether or not you intend to attend the EGM in person, all shareholders are urged to complete and return the form of proxy in accordance with the instructions printed thereon. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjourned meeting if they so wish.
6. Pursuant to Rule 13.39(4) of the Listing Rules, the resolution set out in this notice will be decided by poll at the EGM.