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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 or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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**CHINA INVESTMENTS HOLDINGS LIMITED****中國興業控股有限公司***

(Incorporated in Bermuda with limited liability)

(Stock code: 132)

**(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION OF SOUTHERN LIMITED; AND
(2) APPLICATION FOR WHITEWASH WAIVER**

Financial Adviser to the Company

CROSBY

Crosby Securities Limited

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

 **金融有限公司**
OCTAL Capital Limited

A letter from the Independent Board Committee is set out on page 31 of this circular. A letter from Octal Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 77 of this circular.

A notice convening the SGM to be held at the Luxembourg Room II, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 16 July 2014 at 10:30 a.m. is set out on pages SGM-1 to SGM-3 of this circular. Whether or not you are able to attend and/or vote at the SGM in person, you are requested to complete the enclosed form of proxy and return it to the Company's principal place of business at Unit 601, Tsim Sha Tsui Centre, 66 Mody Road, Tsimshatsui, Kowloon, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

30 June 2014

* For identification purpose only

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares by CIL from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 5 June 2014 entered into by CIL, the Vendor, the Registered Holders and Prize Rich in respect of the Acquisition
“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Announcement”	the announcement dated 5 June 2014 of the Company in relation to, among other things, the Acquisition and the Whitewash Waiver
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturdays and Sundays and public holidays) on which licensed banks are generally open for business in Hong Kong
“CIL” or “Purchaser”	China Investments Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Company”	China Investments Holdings Limited, an exempted company incorporated in Bermuda and with limited liability, the Shares of which are listed on the Stock Exchange (Stock Code: 132)
“Completion”	the completion of the Acquisition pursuant to the terms and conditions contained in the Acquisition Agreement
“Completion Date”	the date on which all conditions are satisfied (or waived, to the extent waivable) or such other later date as the Purchaser may agree
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	HK\$497,400,000, being the total consideration payable by the Company to Prize Rich for the Acquisition pursuant to the Acquisition Agreement
“Consideration Shares”	a total of 524,000,000 Shares to be allotted and issued by the Company to Prize Rich pursuant to the Acquisition Agreement as part of the Consideration at a price of HK0.632 per Share

DEFINITIONS

“Conversion Shares”	the Share(s) to be issued by the Company pursuant to the exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the convertible bonds in the principal amount of HK\$166,232,000 to be issued by the Company to settle part of the Consideration
“Debt Transfer Agreement”	the debt transfer agreement dated 6 June 2014 and entered into between Southern Limited, Nanli Power, Nantang Power, Prize Rich, Guangdong Nanhai Holding and Jinglong Holding in relation to the transfer of debt owed to Jinglong Holding, together with interests payable (if any), from Southern Limited, Nanli Power and Nantang Power to Prize Rich
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged by the Acquisition
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates(s)
“Group”	the Company and its subsidiaries
“Guangdong Nanhai Holding”	廣東南海控股投資有限公司 (Guangdong Nanhai Holding Investment Co., Ltd.*), a company incorporated in the PRC and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all its independent non-executive Directors, established for the purpose of advising Independent Shareholders on the terms of the Acquisition Agreement and the transactions contemplated therein and the Whitewash Waiver, and to give its recommendation as to the voting in respect of the resolutions to be proposed at the SGM for approving the Acquisition Agreement and the Whitewash Waiver
“Independent Shareholders”	Shareholders other than Prize Rich, Mr. Chen, Mr. Wang, Mr. Huang and their concert parties (if any) and any Shareholder who is involved or interested in the Acquisition and the Whitewash Waiver other than as a Shareholder in general

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DEFINITIONS

“Jinglong Holding”	佛山市南海景隆投資控股有限公司(Foshan Nanhai Jinglong Investment Holding Co., Ltd.*), a company incorporated in the PRC and a wholly-owned subsidiary of Guangdong Nanhai Holding as at the Latest Practicable Date
“Last Trading Day”	5 June 2014, being the last full trading day on which the Shares were traded on the Stock Exchange prior to the publication of the Announcement
“Latest Practicable Date”	27 June 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 Business Days from fulfillment of the condition precedent (a) as set out in the “Conditions precedent” section of the Letter from the Board of this circular or 31 August 2014, whichever is later, or such other later date as the Purchaser may agree
“Mr. Chen”	陳小華 (Chen Xiaohua*), a shareholder of Southern Limited holding 60% of the Sale Shares on behalf of the Vendor as at the Latest Practicable Date
“Mr. Huang”	黃子濃 (Huang Zinong*), a shareholder of Southern Limited holding 20% of the Sale Shares on behalf of the Vendor as at the Latest Practicable Date
“Mr. Wang”	王永哲 (Wang Yongzhe*), a shareholder of Southern Limited holding 20% of the Sale Shares on behalf of the Vendor as at the Latest Practicable Date
“Nanli Power”	Nanli Power Company Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Southern Limited
“Nantang Power”	Nantang Power Company Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Southern Limited

* For identification purpose only

DEFINITIONS

“Octal Capital” or “Independent Financial Adviser”	Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong), who has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the terms of the Acquisition and the Whitewash Waiver
“percentage ratio”	has the meaning ascribed to it under Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China, and for the purposes of this circular excluding Hong Kong, the Macau Special Administrative Region, and Taiwan
“Prize Rich”	Prize Rich Inc., a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Guangdong Nanhai Holding as at the Latest Practicable Date
“Project Company” or “Changhai”	南海長海發電有限公司 (Nanhai Changhai Power Company Limited*), a company incorporated in the PRC
“Registered Holders”	Mr. Chen, Mr. Huang and Mr. Wang
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	10,000 ordinary shares of Southern Limited, representing its entire issued share capital, to be acquired by CIL pursuant to the Acquisition Agreement
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held at the Luxembourg Room II, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 16 July 2014 at 10:30 a.m. for the Independent Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares and the Convertible Bonds) and the Whitewash Waiver

* *For identification purpose only*

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s) of the Company
“Southern Group”	Southern Limited and its subsidiaries, namely Nantang Power and Nanli Power
“Southern Limited”	Southern Limited, a company incorporated in Hong Kong and its entire issued share capital is held by the Registered Holders on trust for and on behalf of the Vendor
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Valuer”	Associated Surveyors & Auctioneers Limited, an independent valuer qualified under The Hong Kong Institute of Surveyors
“Vendor” or “Nanhai Public Funding Office”	佛山市南海區公有資產管理委員會辦公室 (Office of the Nanhai District of Foshan City Public Assets Administration Commission*)
“Whitewash Waiver”	the waiver by the Executive pursuant to Note 1 on the dispensations from Rule 26 of the Takeovers Code in respect of Prize Rich to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities not already owned or agreed to be acquired by Prize Rich as a result of the issue of Consideration Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United State dollars, the lawful currency of the United States of America
“%”	per cent

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LETTER FROM THE BOARD



CHINA INVESTMENTS HOLDINGS LIMITED 中國興業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 132)

Executive Directors:

You Guang Wu
Su Wenzhao
Huang Zhihe
Wang Xin

Registered Office:

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

Independent non-executive Directors:

Chan Kwok Wai
Chen Da Cheng
Deng Hong Ping

*Head Office and Principal Place
of Business in Hong Kong:*

Unit 601, Tsim Sha Tsui Centre
66 Mody Road
Tsimshatsui
Kowloon, Hong Kong

30 June 2014

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF SOUTHERN LIMITED; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

Reference is made to the Announcement, whereby the Board announced that on 5 June 2014, CIL entered into the Acquisition Agreement with the Vendor, the Registered Holders and Prize Rich, pursuant to which CIL conditionally agreed to acquire from the Vendor the Sale Shares at the Consideration of HK\$497,400,000, of which HK\$331,168,000 will be satisfied by the issue of 524,000,000 Consideration Shares to Prize Rich at the price of HK\$0.632 per Consideration Share, and HK\$166,232,000 will be satisfied by the issue of the Convertible Bonds to Prize Rich.

* For identification purpose only

LETTER FROM THE BOARD

The Sale Shares, which were initially issued at their nominal value of HK\$10,000, represent the entire issued share capital of Southern Limited. The principal asset of Southern Limited is its holding of approximately 32.636% equity interest in the Project Company. The Project Company is principally engaged in the cogeneration of thermal power and heat and the operation of a combined heat and power plant in Nanhai District, Foshan City, Guangdong Province, the PRC.

The purpose of this circular is to provide you with, among other things, (i) further information on the Acquisition; (ii) details of the Whitewash Waiver; (iii) financial information on Southern Limited and the Project Company; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) the valuation report on the property interests of Southern Limited and the Project Company; (vi) the recommendation of the Independent Board Committee in respect of the Acquisition Agreement and the Whitewash Waiver; (vii) the advice of Octal Capital regarding the terms of the Acquisition Agreement and the Whitewash Waiver; and (viii) a notice convening the SGM together with the proxy form and other information as required under the Listing Rules and the Takeovers Code.

THE ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are set out below:

Date

5 June 2014

Parties

- (1) CIL (a wholly-owned subsidiary of the Company)
- (2) the Vendor
- (3) the Registered Holders
- (4) Prize Rich

As at the Latest Practicable Date, (i) Prize Rich holds approximately 29.39% of the issued share capital of the Company; and (ii) the Vendor is beneficially interested in the entire issued share capital of Prize Rich. Prize Rich is a substantial Shareholder and a connected person of the Company under the Listing Rules.

As at the Latest Practicable Date, Mr. Chen, Mr. Wang and Mr. Huang are the registered holders of 60%, 20% and 20% respectively of the issued share capital of Southern Limited. Each of the Registered Holders confirms that he is holding the Sale Shares in Southern Limited on trust for and on behalf of the Vendor. As at the Latest Practicable Date, the Registered Holders are directors of the Vendor group of companies. Save for the above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Registered Holders are third parties independent of the Group and its connected persons under the Listing Rules.

LETTER FROM THE BOARD

Assets to be acquired

The Sale Shares represent the entire issued share capital of Southern Limited. The principal asset of Southern Limited is its direct and indirect holding of approximately 32.636% equity interest in the Project Company.

Basis of the Consideration

Pursuant to the Acquisition Agreement, the Consideration of HK\$497,400,000 shall be satisfied at Completion in the following manner:

- (i) HK\$331,168,000, to be satisfied by the issue of 524,000,000 Consideration Shares at the price of HK\$0.632 per Consideration Share to Prize Rich; and
- (ii) HK\$166,232,000, to be satisfied by the issue of the Convertible Bonds to Prize Rich, which may be converted into 218,726,315 Shares upon full exercise of the conversion rights under the Convertible Bonds at the initial conversion price of HK\$0.76 per Conversion Share.

The Consideration was arrived at after arm's length negotiations between CIL and the Vendor and was determined after having taken into account, among other things, (i) the historical financial results and the net asset value of the Project Company as at 31 December 2013; (ii) the Debt Transfer Agreement; (iii) the valuations of the properties of Southern Limited as at 31 December 2013; and (iv) the future prospects of the Project Company.

The Project Company recorded a profit attributable to its owners of approximately RMB106.5 million and RMB124.6 million for the year ended 31 December 2012 and 2013 ("FY2013"), respectively. The Directors are of the view that the Consideration, representing an effective price-earnings multiple of approximately 9.1 times of the Project Company's profit attributable to its owners for FY2013, is fair and reasonable. The audited equity attributable to owners of Southern Limited as at 31 December 2013 was approximately HK\$271.1 million. After taking into account the adjustment in relation to the Debt Transfer Agreement of approximately HK\$132.5 million and the adjustment in relation to the valuation surplus relating to the properties of Southern Limited of approximately HK\$10.7 million as at 31 December 2013, the adjusted equity attributable to owners of Southern Limited would be increased to approximately HK\$414.3 million. The Directors are of the view that the Consideration which represents a price-to-book ratio of approximately 1.2 times is fair and reasonable.

The Directors are of the view that the proposed settlement method for the Consideration, being through the issue of Consideration Shares and Convertible Bonds, which does not require cash outflow from the Company, would not strain the Company's working capital and also allow sufficient and healthy cashflow for financing the Company's other projects, namely (i) the intended expansion of the annex building in Guilin Plaza in relation to the Group's hotel business; and (ii) the remaining settlement for the 98 office units in the Nanhai District the Group purchased in September 2013 in relation to its property investment business, as well as for general working capital use. The Company intends to utilize approximately HK\$125 million for the settlement of the 98 office units, and has budgeted approximately HK\$150 million for the expansion of the annex building. Further details of the Group's other projects are mentioned in the section "Financial and trading prospects of the Enlarged Group" on page I-75 of this

LETTER FROM THE BOARD

circular. In addition, the partial settlement of the Consideration through the issue of Convertible Bonds would limit the immediate dilution effect on the existing Shareholder's interests as a result of the issue of Consideration Shares. Having also taken into account that the issue price of the Consideration Shares represents a premium over the net asset value per Share, the Directors consider that the settlement method for the Consideration, being through the issue of Consideration Shares and Convertible Bonds, is in the best interests of the Company and its Shareholders.

Conditions precedent

Completion shall be subject to and conditional upon fulfillment of the following conditions or as may be mutually waived by the Vendor and the Purchaser (except conditions precedent set out in paragraphs (a) to (d) below which cannot be waived):

- (a) the Independent Shareholders having approved the Acquisition Agreement, the transactions contemplated thereunder (including the issuance of the Consideration Shares, the Convertible Bonds and the Conversion Shares) and the Whitewash Waiver in accordance with the Listing Rules and the Takeovers Code;
- (b) the Executive having granted the Whitewash Waiver;
- (c) the Stock Exchange having approved, with or without conditions, the listing and trading of the Consideration Shares and the Conversion Shares on the Stock Exchange;
- (d) all necessary authorisations under the applicable rules and regulations having been obtained from relevant authorities, including the Nanhai District of Foshan City Public Assets Administration Commission* (佛山市南海區公有資產管理委員會) and Foshan City Nanhai District People's Government* (佛山市南海區人民政府) in relation to the Acquisition;
- (e) certificate or evidence of continuing registration of Southern Limited, Nanli Power and Nantang Power with the companies registry of their respective jurisdiction of incorporation having been obtained;
- (f) the Vendor, the Registered Holders, Prize Rich and the Purchaser having completed all procedures and obtained all approvals under the applicable laws for the execution and performance of the Acquisition Agreement and related documentation;
- (g) the Vendor's warranties having remained true and accurate in all material respects as at the Completion Date;
- (h) there being no material adverse change, after 31 December 2013, in the business, operation, assets, financial positions or prospect of Southern Limited, its subsidiaries and the Project Company; and
- (i) the Debt Transfer Agreement having been completed.

* For identification purpose only

LETTER FROM THE BOARD

As at the Latest Practicable Date, the conditions (d) and (i) set out above had been fulfilled and no conditions had been waived.

In the event the conditions set out above are not fulfilled (or waived, as the case may be) on or before the Long Stop Date, any party to the Acquisition Agreement may terminate the Acquisition Agreement.

Undertakings

The Vendor has undertaken to CIL to, after Completion, procure the Project Company: (i) upon request, to distribute unpaid dividends of the Project Company to Southern Limited, Nantang Power and Nanli Power or to apply such dividends as capital contributions of the Project Company upon any future increase of its registered capital; and (ii) to comply with certain new PRC environmental standards which will become applicable to the Project Company in relation to the operations of the Project Company. The dividends of the Project Company, which amounted to RMB112,733,000 as at 31 December 2013, represent shareholders' entitlements of Southern Limited, Nantang Power and Nanli Power not yet declared and paid by the Project Company per requests of Southern Limited, Nantang Power and Nanli Power which did not have capital needs. As declaration and distribution of such dividends and/or the paid up of registered capital by such amounts has to be approved by the board of the Project Company, CIL has obtained such undertaking from the Vendor to facilitate such distribution and payment, if and when required. Such unpaid dividends were accounted for as retained profits by the Project Company and were included in the interest of associate by Southern Limited in its consolidated accounts using the equity accounting method. There is presently no scheduled time for requesting the distribution of the unpaid dividends or for capital injection for the Project Company.

Prize Rich has undertaken to CIL to compensate CIL and, following Completion, Southern Limited, Nantang Power, Nanli Power and the Project Company against any losses, claims, liabilities and expenses suffered by them as a result of any breach of the Acquisition Agreement by the Vendor or by the Registered Holders. The aggregate liabilities of the Vendor and Prize Rich to CIL under the Acquisition Agreement are up to an agreed amount of HK\$331,600,000. The amount of HK\$331,600,000 was determined with reference to the amount of Consideration minus 32.636% of the value of the property, plant, equipment and land of the Project Company (as disclosed in its audited consolidated accounts as at 31 December 2013), being the most substantial fixed assets of the Project Company. Such amount represented the amount of Consideration paid by CIL and not recoverable in the extreme case if the Project Company ceases to operate its business and its assets have to be realised for value.

Completion

Completion shall take place on the date on which all the conditions precedent have been satisfied (or waived, to the extent waivable) or such other later date as the Purchaser may agree.

THE CONSIDERATION SHARES

The issue price of the Consideration Shares of HK\$0.632 represents:

- (a) a discount of approximately 1.25% over the closing price of HK\$0.640 per Share as quoted on the Stock Exchange on the Last Trading Day;

LETTER FROM THE BOARD

- (b) a premium of approximately 1.61% over the average closing price of HK\$0.622 per Share for the last five trading days up to and including the Last Trading Day;
- (c) a discount of approximately 0.16% over the average closing price of HK\$0.633 per Share for the last ten trading days up to and including the Last Trading Day;
- (d) a premium of approximately 1.28% over the average closing price of HK\$0.624 per Share for the last thirty trading days up to and including the Last Trading Day;
- (e) a premium of approximately 26.91% over the audited consolidated net assets value attributable to equity holders of the Company per Share of approximately HK\$0.498, calculated based on the Group's audited consolidated net asset value of HK\$592,058,000 as at 31 December 2013 and 1,188,329,142 Shares in issue on 31 December 2013; and
- (f) a premium of approximately 5.33% to the closing price of HK\$0.600 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares represent approximately 44.10% of the issued share capital of the Company as at the Latest Practicable Date and approximately 30.60% of the issued share capital of the Company as enlarged only by the Consideration Shares.

The Consideration Shares shall at all times rank pari passu among themselves and with the Shares in issue as at the date of issue of the Consideration Shares, including the right to dividends or distributions declared after the date of issue of the Consideration Shares. The Consideration Shares will be issued pursuant to a specific mandate to be sought at the SGM. The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds are as follows:

Issuer:	the Company
Principal Amount:	HK\$166,232,000
Issue Price:	The Convertible Bonds will be issued at 100% of the principal amount.
Interest:	2% per annum, payable annually in arrears or upon the conversion or redemption of the Convertible Bonds.
Maturity Date:	The fifth anniversary of the issue date of the Convertible Bonds.
Conversion Rights:	The Convertible Bonds are convertible in whole or in part of the outstanding principal amount of the Convertible Bonds into Conversion Shares at the Conversion Price by the bondholder at any time during the Conversion Period.

LETTER FROM THE BOARD

The principal amount of the Convertible Bonds to be converted on each occasion shall not be less than HK\$1,000,000 and shall be in integral multiple(s) of HK\$1,000,000, unless the outstanding principal amount of the Convertible Bonds is less than HK\$1,000,000 and in such event the entire outstanding principal amount shall be converted.

Conversion Shares: Assuming that the Convertible Bonds are fully converted into Conversion Shares at the initial conversion price of HK\$0.76, a total of 218,726,315 Conversion Shares will be issued which represent approximately 18.41% of the issued share capital of the Company as at the Latest Practicable Date and approximately 15.54% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (but not the Consideration Shares).

Conversion Price: The price at which each Share shall be issued upon conversion shall be HK\$0.76 (subject to adjustment). The conversion price of HK\$0.76 represents:

- (i) a premium of approximately 18.75% over the closing price of HK\$0.640 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 22.19% over the average closing price of HK\$0.622 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 20.06% over the average closing price of HK\$0.633 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 26.67% to the closing price of HK\$0.600 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (v) a premium of approximately 27.52% to the average closing price of HK\$0.596 per Share for the last five consecutive trading days up to and including the Latest Practicable Date;
- (vi) a premium of approximately 25.62% to the average closing price of HK\$0.605 per Share for the last ten consecutive trading days up to and including the Latest Practicable Date;

LETTER FROM THE BOARD

The conversion price is subject to adjustments in accordance with the relevant provisions under the terms and conditions of the Convertible Bonds, upon occurrence of, among other things, subdivision or consolidation or re-classification of Shares, capital distribution, issue of Shares by way of capitalization of profits or reserves, grant of options, warrants or rights to subscribe for or purchase Shares.

Conversion Period: The period commencing on the date immediately following the third anniversary of the issue date of the Convertible Bonds and expiring on the maturity date.

Redemption: The Convertible Bonds shall be redeemed by the Company on the maturity date at the principal amount then outstanding together with all accrued and unpaid interest thereon up to and including the maturity date. By giving notice to the bondholder, the Convertible Bonds may also be redeemed, in whole or in part, at any time prior to the maturity date by the Company at the principal amount then outstanding or such part(s) of the principal amount then outstanding together with the relevant accrued and unpaid interest.

Transferability: The Convertible Bonds or any part(s) thereof (in integral multiple(s) of HK\$1,000,000 unless the outstanding principal amount of the Convertible Bonds is less than HK\$1,000,000) may be assigned or transferred, subject to the satisfaction of the following conditions:

- (a) The Convertible Bonds (and any part thereof) shall not be transferred without the prior written consent of the Company;
- (b) shall be in compliance with the conditions set out in the approval from the Stock Exchange in relation to the listing of, and permission to deal in, the Conversion Shares; and
- (c) shall be in compliance with the conditions, approvals, requirements and any other provisions of or under:
 - (i) the Listing Rules;
 - (ii) the Takeovers Code; and
 - (iii) all applicable laws and regulations.

LETTER FROM THE BOARD

Events of default:

If any of the following events occurs, the bondholder may by written notice to the Company declare that the Convertible Bonds are immediately due and payable at its principal amount then outstanding plus interest accrued thereon up to and including the date of such written notice without further demand, notice or other legal formality of any kind:

- (a) the shares (as a class) cease to be listed on main board of the Stock Exchange or any other international stock exchange for a continuous period of fourteen trading days; or
- (b) the Company materially defaults in performance or compliance with any of its obligations contained in the terms and conditions of the Convertible Bonds which breach or default is incapable of remedy or, if capable of remedy, is not remedied within thirty Business Days after notice of such breach or default is sent from the bondholder to the Company; or
- (c) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any material part of the undertaking, property, assets or revenues of the Company or any major subsidiary of the Company; or
- (d) the Company or any major subsidiary of the Company becomes insolvent or is unable to pay its debts as they mature or applies for or consents to the appointment of any administrator, liquidator or receiver of the whole or any material part of its undertaking, property, assets or revenues or enters into a general assignment or compromise with or for the benefit of its creditors; or
- (e) an order is made or an effective resolution is passed for winding-up of the Company or any major subsidiary of the Company except in the case of winding-up of a major subsidiary of the Company in the course of internal reorganisation; or
- (f) the Company defaults in the payment of the principal of the Convertible Bonds and/or interest accrued thereon when and as the same ought to be paid and such default is not remedied by the Company within thirty Business Days of the due date thereof.

Voting:

The bondholder will not be entitled to receive any notices of, attend or vote at any meetings of the Company by reason only of it being the bondholder of the Convertible Bonds.

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Listing:	No application will be made for the listing of the Convertible Bonds. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon the conversion of the Convertible Bonds.
Ranking of Conversion Shares:	The Conversion Shares will rank pari passu in all respects with all existing Shares then in issue at the date on which the notice of conversion is given. The Conversion Shares will be issued pursuant to a specific mandate to be sought at the SGM.

Fund raising activities in the past twelve months

The Company had no equity fund raising activities in the past twelve (12) months immediately prior to the Latest Practicable Date.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) after the allotment and issue of the Consideration Shares and before the exercise of conversion rights attaching to the Convertible Bonds; and (iii) after the allotment and issue of the Consideration Shares and assuming the conversion rights attaching to the Convertible Bonds are fully exercised:

Shareholders	As at the Latest Practicable Date		After the allotment and issue of the Consideration Shares only		After the allotment and issue of the Consideration Shares and assuming the conversion rights attaching to the Convertible Bonds are fully exercised	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Prize Rich (<i>Note 1</i>)	349,217,178	29.39	873,217,178	51.00	1,091,943,493	56.55
Mighty Management Limited (<i>Note 2</i>)	151,610,779	12.76	151,610,779	8.85	151,610,779	7.85
Nam Keng Van Investment Company Limited (<i>Note 3</i>)	121,864,487	10.26	121,864,487	7.12	121,864,487	6.31
Public	<u>565,636,698</u>	<u>47.59</u>	<u>565,636,698</u>	<u>33.03</u>	<u>565,636,698</u>	<u>29.29</u>
Total	<u>1,188,329,142</u>	<u>100.00</u>	<u>1,712,329,142</u>	<u>100.00</u>	<u>1,931,055,457</u>	<u>100.00</u>

Note 1: Prize Rich is wholly-owned by Guangdong Nanhai Holding, which is wholly-owned by the Vendor.

Note 2: According to publicly available information, Mighty Management Limited is wholly-owned by Mr. Leung Siu Fai, an ex-executive director and ex-chairman of the Company who resigned on 26 February 2009.

Note 3: According to publicly available information, Nam Keng Van Investment Company Limited is wholly-owned by Mr. Cui Guo Jian and Mr. Pu Jian Qing in equal shares.

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INFORMATION ON SOUTHERN LIMITED, NANTANG POWER AND NANLI POWER

As at the Latest Practicable Date, Southern Limited, Nantang Power and Nanli Power are interested in approximately 5.202%, 12.139% and 15.295%, respectively, and 32.636% in aggregate of the issued share capital of the Project Company.

Upon Completion, Southern Limited will become a wholly-owned subsidiary of the Company and the consolidated profit or loss and assets and liabilities of Southern Limited will be accounted for in the consolidated financial statements of the Group.

Southern Limited

Southern Limited is an investment holding company incorporated in Hong Kong with limited liability.

Southern Limited has two wholly-owned subsidiaries, namely Nantang Power and Nanli Power, and holds approximately 5.202% direct equity interest in the Project Company. Aside from its equity interests in its two wholly-owned subsidiaries and the Project Company, and save for the three leasehold properties in Hong Kong held by it for use and rental, Southern Limited has no other material asset.

Nantang Power

Nantang Power is an investment holding company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of Southern Limited. Nantang Power holds approximately 12.139% equity interest in the Project Company. Aside from its equity interest in the Project Company, Nantang Power has no other material asset.

Nanli Power

Nanli Power is an investment holding company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of Southern Limited. Nanli Power holds approximately 15.295% equity interest in the Project Company. Aside from its equity interest in the Project Company, Nanli Power has no other material asset.

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FINANCIAL INFORMATION OF SOUTHERN LIMITED

Set out below is the key financial information of Southern Limited based on its audited consolidated financial statements for the three years ended 31 December 2013 as set out in Appendix IIA of this circular.

	For the year ended 31 December 2011	For the year ended 31 December 2012	For the year ended 31 December 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	325	456	456
Profit before taxation	6,700	44,403	51,373
Profit after taxation	6,674	44,378	51,347
	As at	As at	As at
	31 December 2011	31 December 2012	31 December 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets (<i>Note</i>)	166,743	212,032	271,057

Note: Upon completion of the Debt Transfer Agreement dated 6 June 2014 and entered into between Southern Limited, Nanli Power, Nantang Power, Prize Rich, Guangdong Nanhai Holding and Jinglong Holding, the aggregate payable balance of HK\$132,518,036 (together with interests, if any) owed by Southern Limited, Nanli Power and Nantang Power (collectively, the “**Debtors**”) to Jinglong Holding would be legally transferred from the Debtors to Prize Rich. As the completion of the Debt Transfer Agreement had not yet taken place as at 31 December 2013, the aforesaid amount was still accounted for in the consolidated net assets of Southern Limited as at 31 December 2013.

Shareholders should read the above information in conjunction with the accountants’ report as set out in Appendix IIA to this circular containing further financial information of Southern Limited.

INFORMATION ON THE PROJECT COMPANY

The Project Company was established in Nanhai District, Foshan City, Guangdong Province, the PRC on 22 September 1995, with a total registered capital of US\$46,215,100. The Project Company is principally engaged in cogeneration of thermal power and heat and operates a combined heat and power plant in Nanhai District, Foshan City, Guangdong Province, the PRC. As at the Latest Practicable Date, the Project Company is held as to approximately (i) 67.364% by Jinglong Holding (a wholly-owned subsidiary of Guangdong Nanhai Holding, a substantial Shareholder beneficially interested in approximately 29.39% of the issued share capital of the Company as at the Latest Practicable Date); and (ii) 32.636% by Southern Limited and its two subsidiaries, Nantang Power and Nanli Power. The original purchase cost of the Project Company to Nantang Power and Nanli Power amounted to approximately HK\$78.4 million and HK\$96.3 million in April 1999 and April 1998 respectively. The original purchase cost of the Project Company to Southern Limited amounted to approximately HK\$19.1 million, of which the cost of approximately HK\$15.6 million, HK\$2.6 million and HK\$0.9 million was recognized by Southern Limited on April 1998, April 2003 and March 2013 respectively. Both Guangdong Nanhai Holding and Southern Limited are ultimately controlled by the Vendor.

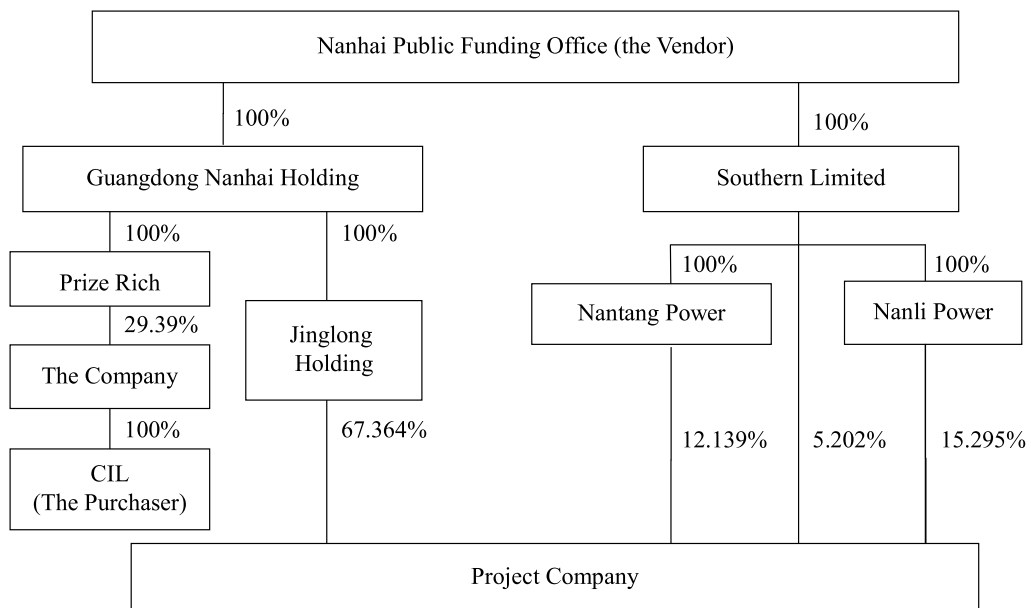
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As at the Latest Practicable Date, Jinglong Holding, Southern Limited, Nantang Power, Nanli Power and the Project Company do not hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

Shareholding structure of Southern Limited, its subsidiaries and the Project Company

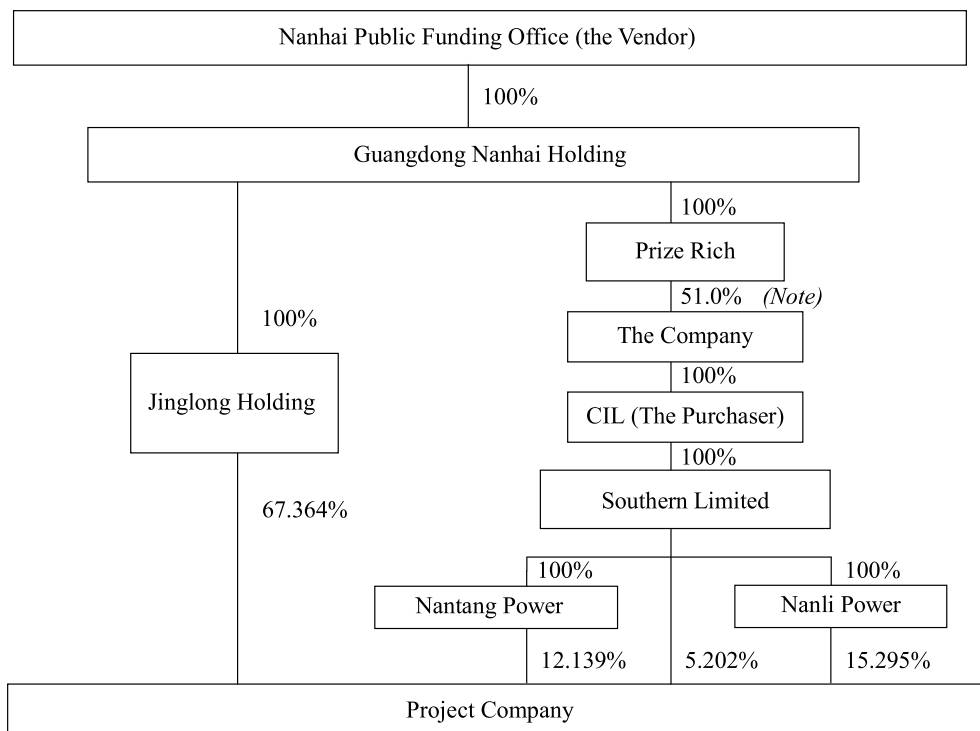
Set out below are the shareholding structure charts of Southern Limited, its subsidiaries and the Project Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion for illustration purpose:

(i) As at the Latest Practicable Date



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(ii) *Immediately after Completion*



Note: Assuming that the conversion rights attaching to the Convertible Bonds are fully exercised and there is no other change in the issued share capital of the Company, Prize Rich's equity interests in the Company will increase to approximately 56.55%.

INFORMATION IN RELATION TO THE PROJECT COMPANY

Financial information of the Project Company

Set out below is the key financial information of the Project Company based on its audited financial statements for the three years ended 31 December 2013 as set out in Appendix IIB of this circular.

	For the year ended 31 December 2011	For the year ended 31 December 2012	For the year ended 31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	865,093	923,550	875,576
Profit before taxation	16,019	142,397	168,997
Profit after taxation	14,654	106,488	124,567
	As at	As at	As at
	31 December 2011	31 December 2012	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net assets	497,131	593,619	869,558

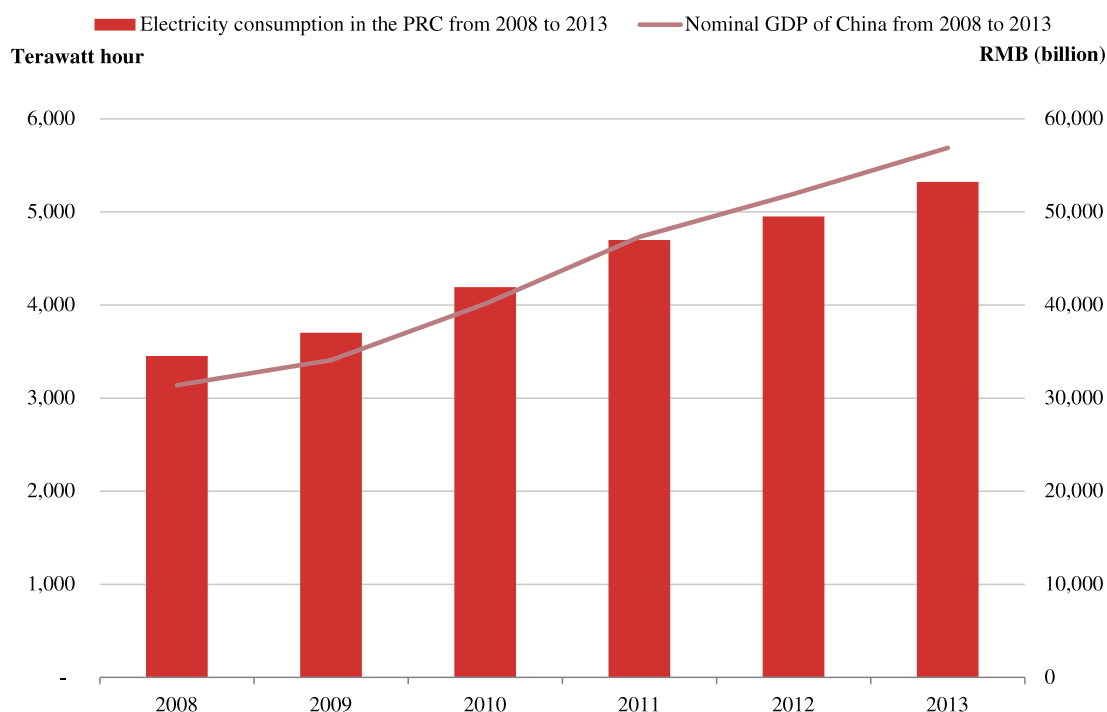
LETTER FROM THE BOARD

Shareholders should read the above information in conjunction with the accountants' report as set out in Appendix IIB to this circular containing further financial information of the Project Company.

Upon Completion, the Project Company will be accounted for in the consolidated financial statements of the Group as an interest in an associate.

Power and heat industry overview and competition landscape

Electricity consumption in the PRC has experienced considerable growth in the recent years, being largely driven by strong gross domestic product (“GDP”) growth. According to the National Bureau of Statistics of China, China's nominal GDP increased from approximately RMB31,405 billion in 2008 to RMB56,885 billion in 2013, representing a compound annual growth rate (“CAGR”) of approximately 12.62%. In relation to electricity consumption in the PRC, total consumption of electricity in the PRC increased from approximately 3,454 terawatt hour (“TW.h”) in 2008 to approximately 5,322 TW.h in 2013, representing a CAGR of approximately 9.03%. The following table sets forth the positive relationship between the electricity consumption in the PRC and China's nominal GDP during 2008 to 2013:

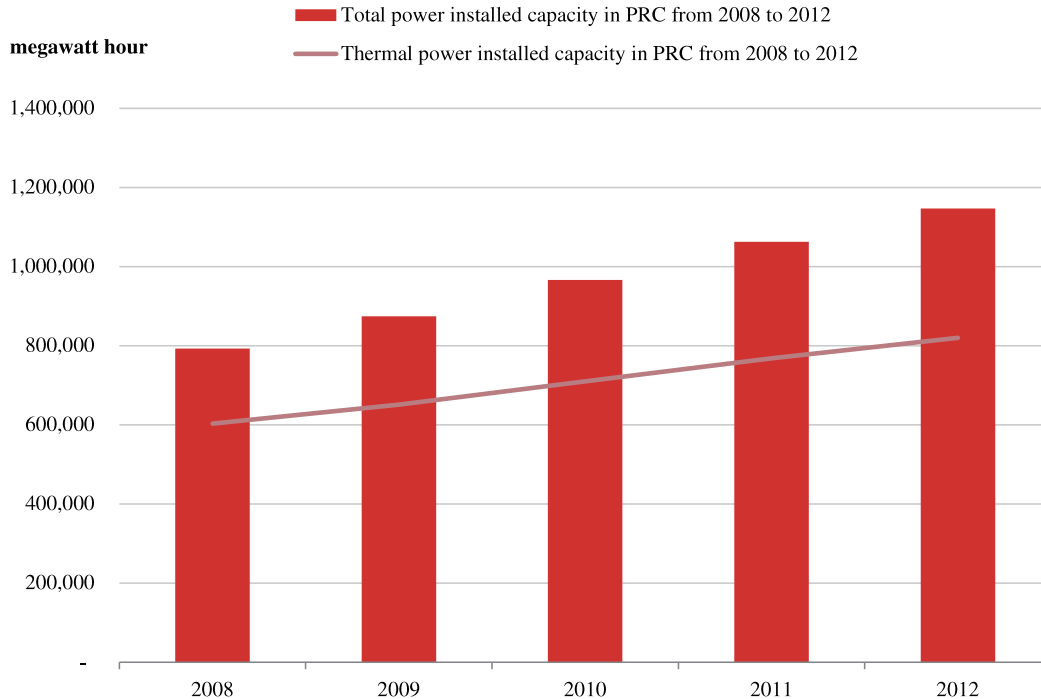


Source: China Electricity Council, National Bureau of Statistics of China

According to the China Electricity Council, thermal power, particularly coal-fired power, remained as the primary source of electricity generated in the PRC, which investment in thermal power generation projects amounted to approximately RMB92.8 billion in 2013. China's power sector continued to demonstrate considerable increase in total installed capacity in recent years. During 2008 to 2012, according to the National Bureau of statistics of China, total installed capacity increased at a CAGR of approximately 9.67%, while that of thermal power increased by approximately 7.98%. The relatively smaller increase in growth of thermal power reflected the gradual shift from traditional thermal power into various forms of

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cleaner energies, as the Chinese government placed increasing emphasis on environment protection. The following table sets forth the thermal power and total installed capacity of power generation in China during 2008 to 2012:



Source: China Electricity Council

In terms of cogeneration capacity installed, in 2011 China had a total of 141,300 megawatt cogeneration capacity installed. In 2012, this increased to 156,930 megawatts, which accounted for approximately 19.2% of China's total power capacity in 2012. The National Development and Reform Commission has also set a goal of 200,000 megawatts of combined heat and power energy by 2020, which would be approximately 22% of the installed power capacity expected that year. Pursuant to the 《工業節能“十二五”規劃》(The 12th Five-Year Planning on Industrial Efficiency) published by the Ministry of Industry and Information Technology of China in February 2012, and the notice on cogeneration development edited by the National Development and Reform Commission of China and published by the National Energy Administration of China in June 2011, the Chinese government has listed cogeneration as one of its primary energy efficiency projects and intended to significantly strengthen the use of cogeneration in the industrial sector, particularly the steel manufacturing, non-ferrous metal, chemical and light industries by 2015. It estimated the total investment in cogeneration projects during the five-year period of 2011 to 2015 would reach a total of RMB70 billion. The Chinese government would continue to improve and refine the investment, construction and pricing regulations in relation to the cogeneration sector to encourage its continued development.

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As at the Latest Practicable Date, to the best of the knowledge of the Project Company's management, there are no other cogeneration companies supplying centralized heated steam to the same area as the Project Company, being the Textile Industrial Base of Xiqiao Guangdong (which is part of the Guangdong Cyclic Economy Industrial Park). With the gradual phasing out of small-scale traditional boiler plants in the Textile Industrial Base of Xiqiao Guangdong, the demand for heated steam is expected to remain stable.

Regulatory requirements and compliance

(i) Operational and environmental regulations

The Project Company is subject to the operational and environmental regulations and standards of the PRC applicable to the power supply industry. Among which, new environmental safeguards such as the Emission Standard of Air Pollutants for Thermal Power Plants GB13223-2011 (《火電廠大氣污染物排放標準》GB13223-2011) (the "Emission Standard") which regulates the emission of chemicals by the Project Company will become applicable to the Project Company in July 2014 and Foshan Electric Power Industry "Ultra-clean Emission" Transformation Plan (Fo Fu Ban Han [2014] No.189) (《佛山市電力行業“超潔淨排放”改造工作方案》(佛府辦函[2014]189號)) which the Project Company is expected to upgrade its facilities to ensure that its emission levels of chemicals and dust will meet the limits specified under the new Emission Standard by 1 March 2015.

The PRC legal adviser of the Company are of the view that, so far as the Project Company completes the upgrading of its facilities to ensure that its chemicals and dust emission levels meet the limits specified under the new Emission Standard in accordance with the Foshan Electric Power Industry "Ultra-clean Emission" Transformation Plan (Fo Fu Ban Han [2014] No.189)(《佛山市電力行業“超潔淨排放”改造工作方案》(佛府辦函[2014]189號)) by 1 March 2015, the Project Company will not be subject to administrative penalties from relevant authorities under the new Emission Standard after the new Emission Standard becomes applicable. It is expected that the upgrading can be completed by the required time limit.

(ii) Power supply to state-owned power grid and relatively remote areas

Apart from the Project Company's major customer which is a state-owned power grid company (which in turn manages power supply to enterprises), the Project Company also supplies electricity to relatively remote areas not covered by the public power supply facilities. As the setting up of centralized electricity supply facilities involves land requisitions, compensation and the construction of infrastructure, it is difficult for public power supply to cover these areas.

Although in accordance with:-

- (a) the Regulations on the Administration of Power Grid Dispatch (《電網調度管理條例》), the power grids in the PRC operates under the principle of centralised dispatch (統一調度原則). The Project Company's power generators have been assigned to the power grid in Guangdong, the PRC, and are under the centralised dispatch of Guangdong and the Project Company is restricted from supplying electricity to other consumption units without separate approval; and

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- (b) the Regulations on Supply and Use of Electric Power (《電力供應與使用條例》), for areas that cannot be reached by the public power supply facilities, power-supplying enterprises can authorise power generating units to supply electricity to nearby areas, and power generating units shall not provide electricity to other parties without authorisation;

the PRC legal adviser of the Company are of the view that although the aforesaid arrangement of power supply has not obtained official approval, in light of the Electric Power Law (《電力法》) which provides that investors in electric power shall enjoy the legal rights in electricity generated through their investments and such investors have priority in using electricity from grid-connected power generation and have the discretion regarding the use of electricity generated from private power plants not connected to the power grids, and since the electric power facilities relating to the aforesaid power supply are mainly invested by villager's committees who are the main consumption units for consumption and the aforesaid arrangement of power supply had taken place before the Regulations on the Administration of Power Grid Dispatch (《電網調度管理條例》) and the Regulations on Supply and Use of Electric Power (《電力供應與使用條例》) became effective, rights including those of the supply and use of electricity relating to such electric power facilities are legally ensured.

The PRC legal adviser of the Company are of the view that, and consistent with the Project Company's understanding, with regard to the aforesaid arrangement of electricity supply, it is unlikely that the relevant authorities will compel any change and the possibility of such arrangement being treated as void or subject to claim is also relatively low and the Project Company has not been penalized by any relevant authorities.

(iii) The supply of heated steam

In relation to the supply of heated steam, applicable laws and regulations are mainly enacted locally by each individual province and the Guangdong Province has no specific administrative regulations in this respect. In addition, all of the Project Company's power generators were certified combined heat and power generation units by the Economic & Information Commission of Guangdong Province.

Save as disclosed in paragraphs (i) and (ii) above, the PRC legal adviser of the Company are of the view that, the Project Company has complied with the major PRC laws, regulations and rules relevant to the carrying out of business and operation of the Project Company (including the existing operational and environmental laws, regulations and rules) in all material aspects, and the Project Company has not been subject to any material administrative penalties from relevant authorities.

History and development of the Project Company

The Project Company was established in Nanhai District, Foshan City, Guangdong Province, the PRC on 22 September 1995. In October 1995, the Project Company successfully connected to the power grid and supplied electricity through its 50MW generators. In 2005, the Project Company's power generation units were certified as combined heat and power generation units, which the Project Company expanded its scope of business to include the supply of heated steam. In December 2006, the government of the Nanhai District, Guangdong, approved the heat supply expansion engineering project in the Textile Industrial Base of Xiqiao, Guangdong, and in April 2010, the project passed the acceptance examination conducted by experts. In January 2011, the Project Company merged with Nanhai Jiangnan Power Company Limited and in March

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2012, the Nanhai District government approved the first phase retrofit of the Project Company's steam boilers and the transformation of its cooling water systems. In November 2013, the Project Company obtained approval from Guangdong Nanhai Holding for the preliminary preparation work for the environmental upgrade of three of its boilers.

Current business status and operational scale of the Project Company

The Project Company, through power grid in Guangdong, provides approximately 1.3 Tw.h of electricity power annually and supplies steam covering an adjacent area of approximately 5.3 square kilometers in Nanhai District, Foshan City, Guangdong Province, the PRC. The Project Company has an installed capacity of 225MW, and is equipped with four 25MW extraction condensing generators, one 50MW extraction condensing generator and one 75MW extraction back pressure generator. The combined maximum steam capacity of the generators is 565t/h, which the Project Company is capable of producing up to 4.0 million tons of steam annually. For the year ended 31 December 2013, the Project Company supplied approximately 1,099.3 million kw.h of power and approximately 1.34 million tons of heated steam. Pursuant to notice from Price Control Administration of Guangdong Province dated 8 January 2008, the Project Company's desulfurization facilities have fulfilled the technical and environmental requirements and therefore it has been entitled to a desulfurization subsidy of RMB0.015 per kilowatt hour from 8 January 2008. As at the Latest Practicable Date, the Project Company is in the process of redeveloping the denitration facilities.

Customers of the Project Company

In relation to the Project Company's electricity supply business, its major customer is a state-owned power grid company in China (which in turn manages power supply to enterprises). Revenue of approximately RMB439,250,000 was derived from the state-owned power grid company for the year ended 31 December 2013, which represented over 50% of the total revenue of the Project Company. The Project Company has maintained a long-term business relationship with the state-owned power grid company for over 18 years. The Project Company also supplies electricity to customers in relatively remote areas. Revenue from such customers contributed to approximately 24.7% of the Project Company's total revenue in 2013. As the price of electricity supplied to the grids is set and controlled by the Chinese government, the price of electricity supplied by the Project Company to the state-owned grid company is set according to the government determined price. In relation to the Project Company's customers in relatively remote areas, the price of electricity supplied to them is determined with reference to the price of electricity supplied to the state-owned grid company.

In relation to the Project Company's heated steam business, the Project Company's heated steam customers are mainly in the textile industry business, which its largest heated steam customer contributed to approximately 14.5% of its total heated steam revenue, and approximately 3.7% of its total revenue for the year ended 31 December 2013. The price of heated steam set by the Project Company is determined with reference to the upper price ceiling set by the Chinese government authority, the market demand, and the coal price. For the year ended 31 December 2013, the average heated steam price per ton set by the Project Company to its heated steam customers amounted to approximately 70% of the price ceiling set by the Chinese government authority. In addition, as mentioned under the section 'Power and heat industry overview and competition landscape', as at the Latest Practicable Date, to the best of the knowledge of the Project Company's management, there are no other cogeneration companies supplying centralized heated

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steam to the same area as the Project Company, being the Textile Industrial Base of Xiqiao Guangdong. The Project Company's management are of the view that with the gradual phasing out of small-scale traditional boiler plants in the Textile Industrial Base of Xiqiao Guangdong, and through its research conducted and observations on the surrounding enterprises in the Textile Industrial Base of Xiqiao Guangdong, there is potential for further increase in demand for heated steam, which the Project Company is preparing itself for potential future demand by expanding its supply capacity, such as by expanding its steam pipeline which is expected to increase its annual heated steam capacity by 144,000 tons.

Suppliers and costs of the Project Company

The Project Company's major suppliers are coal suppliers. The Project Company largely relies on coal to fuel its power plants, which fuel costs is also the largest cost component of the Project Company's business, accounting for more than 70% of its costs for each of the three years ended 31 December 2013. Other costs of the Project Company mainly consist of direct labour costs and factory overheads. In terms of coal prices, coal prices in the PRC were at a decreasing trend from 2011 to 2013. The average coal price in the PRC decreased from an average price of RMB619 per ton in 2011 by approximately 13.9% to approximately RMB533 per ton in 2012, which further decreased by approximately 15.6% to approximately RMB450 per ton in 2013. Such reduction in coal prices resulted in the decrease in cost of sales and contributed to the improved profitability of the Project Company for each of the three years ended 31 December 2013 (the Project Company's gross profit increased from approximately RMB27.8 million to RMB168.6 million, and to RMB198.4 million, representing gross profit margins of approximately 3.2%, 18.3% and 22.7%, for the three years ended 31 December 2011, 2012 and 2013, respectively). In terms of future prospects, although the economic situation has stabilized in the PRC, the coal industry has been facing oversupply, storage raise, and competition from overseas imported coal in recent years. In view of the above, the Project Company's management is of the view that coal price in the PRC is likely to remain at a relatively low level and unlikely to rise significantly in the near future, allowing the Project Company to maintain its costs and profitability.

In relation to the risk of coal price movement and the Project Company's electricity supply business, the Project Company's management and procurement department closely monitor the price of coal in the PRC as well as imported coal to adjust its procurement strategy, increasing the quantity of coal purchased when coal prices are low, and minimizing purchase quantity and inventory levels when coal prices are perceived to be high, which minimizes purchase and storage costs of the Project Company. In relation to the Project Company's heated steam business, in addition to the Project Company adjusting its procuring strategy in accordance with the price level of coal as mentioned above, as the Project Company has the flexibility to set the price of heated steam to individual customers at any price given that it is below the price ceiling set by the Chinese government authority, the Project Company is also able to more effectively transfer its costs to heated steam customers if necessary.

Manpower and management expertise of the Project Company

As at the Latest Practicable Date, the Project Company has approximately 760 employees, including among the others, 32 engineers and 145 assistant engineers, and is organised in various departments to manage the Project Company's business, such as operations, technical innovation, general administration, finance, purchasing and etc. The Project Company possesses strict internal control and has a clear operational structure, with specialized teams responsible for procurement and warehousing as well as a sales

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team to manage the marketing aspects of the business and to address to the demand from customers. The key management of the Project Company consists of five directors, all of whom are certified engineers and four of whom have over 10 years of extensive experience in the thermal power and heat industry.

Future development plan and estimated capital requirements of the Project Company

The Project Company has plans to invest approximately RMB177 million in the environmental upgrade of three of its boilers. Such upgrade is currently in the bidding stage, where the Project Company is receiving bids from contractors to perform the construction work on its three boilers. Such construction work on the three boilers is expected to complete by around March 2015. In addition, the Project Company is currently expanding its steam pipeline, which is expected to increase the Project Company's annual heated steam capacity by approximately 144,000 tons. The expansion project is estimated to cost approximately RMB7.2 million and such construction work on the steam pipeline has commenced and is expected to complete by December 2014. Both of the above-mentioned projects will be financed by the Project Company's internal resources.

THE PROPERTIES

The Valuer has valued the three leasehold properties of Southern Limited (the "Properties", each a "Property") as at 31 March 2014 at an aggregated amount of approximately HK\$32,500,000, and the factory complex of the Project Company as at 31 March 2014 at an amount of approximately HK\$287,300,000. The letter, summary of values and the valuation certificates are set out in Appendix V to this circular.

Two of the Properties are currently held and occupied by Southern Limited for office and residential usage while the remaining Property is currently leased out by Southern Limited. The Company intends to hold all the Properties for rental purpose after Completion.

The table below sets forth the reconciliation between the carrying value of the Properties as at 31 December 2013 and the valuation report as set forth in Appendix V to this circular as at 31 March 2014:

	<i>Note</i>	<i>HK\$</i>
Carrying value of the Properties as at 31 December 2013	<i>1</i>	21,765,106
Less: Depreciation during the period from 1 January 2014 to 31 March 2014		<u>19,526</u>
Carrying value of the Properties as at 31 March 2014		21,745,580
Valuation surplus as at 31 March 2014		<u>10,754,420</u>
Market Value of the Properties as at 31 March 2014	<i>2</i>	<u><u>32,500,000</u></u>

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Notes:

- 1 The carrying value of the Properties as at 31 December 2013 amounting to HK\$21,765,106 is comprised of two properties amounting to HK\$2,265,106 included in property, plant and equipment and an investment property amounting to HK\$19,500,000 which are set out in Appendix IIA – Accountant’s Report on the Southern Group.
- 2 The market value of the Properties as at 31 March 2014 amounting to HK\$32,500,000 is set out in Appendix V – Valuation Report.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, Southern Limited will become a wholly-owned subsidiary of the Company and the consolidated profit or loss and assets and liabilities of Southern Limited will be accounted for in the consolidated financial statements of the Group. The unaudited pro forma financial information of the Enlarged Group is set out in Appendix III to this circular.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma consolidated assets of the Group as at 31 December 2013 would increase from approximately HK\$715.4 million to approximately HK\$1,208.6 million and the unaudited pro forma consolidated total liabilities of the Group as at 31 December 2013 would increase from approximately HK\$123.4 million to approximately HK\$217.4 million as a result of the Acquisition.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the hotel operation and property investment business. As stated in the Company’s 2013 annual report, the Group will continue to identify investment projects with good prospects and high potentials for creating additional value. The Group believes that its relevant experience, and the technology and know-how employed, in its former fibreboard manufacturing business, in particular the development and use of environmental-friendly equipment, facilities and infrastructure (such as combined heat and power plant, sewage facilities and water purification systems), would assist the Group in its intended investment in environmental infrastructure projects, such as the one principally engaged in by the Project Company. In particular, the Group’s approximately 9 years of experience in using a combined heat and power plant for co-generation of electricity and heat in its former fiberboard manufacturing business would assist in the heat and power plant business.

The Project Company principally holds and operates a combined heat and power plant in Nanhai District, Foshan City, Guangdong Province, the PRC, and is principally engaged in cogeneration of thermal power and heat. Currently, through the power grids in Guangdong, the Project Company provides approximately 1.3 Twh of electricity power annually and through steam pipelines, it supplies heated steam covering an area of approximately 5.3 square kilometers in Nanhai District, Foshan City, Guangdong Province, the PRC. After carrying out analysis on the thermal power and heat generation industry in the PRC and due diligence on the business, operation and financial position of the Project Company, the Directors believe that the cogeneration of thermal power and heat business has untapped potential in the PRC, and are of the view that the heated steam supply capacity of the Project Company is currently under utilized. Furthermore, as there is more flexibility of the price determination of heated steam, heated steam

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operations are generally more profitable than traditional thermal power operations. The Directors are confident that the future prospects of the Project Company and in particular, its heated steam operations will help improve the profitability of the Group and achieve the goal of continued growth for the Group.

The Acquisition will allow the Group access to the cogeneration of thermal power and heat business in the PRC, enabling the Group to explore the potential of the industry. Through board representation in the Project Company, CIL's approval is required in important decisions making in relation to the management and operation of the Project Company, including but not limited to the approval of its long term development policy, annual production plan and financial budget. Furthermore, CIL will be entitled to nominate the chief financial officer, who shall oversee the financial planning and reporting of the Project Company. There is no present requirement for the Company to provide further funding for the operation and development of the Project Company and the Company has no concrete plan to acquire further interest in the Project Company or in other power and heat project. In line with the Group's business strategy, the Group will continue to explore further investment opportunities with solid prospects, such as the one presented by the Project Company, including any further interest therein, if and when appropriate opportunities arise.

The proposed Acquisition of indirect equity interest in the Project Company is expected to be more straightforward than the direct acquisition of 32.636% equity interest in the Project Company so far as the PRC procedural requirements are concerned.

The Directors (including the independent non-executive Directors after considering the advice from the Independent Financial Adviser to the Independent Board Committee) believe that the Acquisition and the terms of the Acquisition Agreement (including the maximum aggregate liabilities of the Vendor and Prize Rich to CIL under the Acquisition Agreement) are fair and reasonable so far as the Company and the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

The Directors further consider that the issue of the Consideration Shares and Convertible Bonds as the Consideration would allow the Group to retain more liquid financial resources and if there are other investment opportunities which arise, the Group is in a better financial position to capture such opportunities.

LISTING RULE IMPLICATIONS

As the applicable percentage ratios for the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under the Listing Rules. As Prize Rich is a substantial Shareholder of approximately 29.39% of the issued share capital of the Company, Prize Rich is a connected person of the Company and therefore, the Acquisition also constitutes a connected transaction for the Company. Accordingly, the Acquisition is subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

Prize Rich, Mr. Chen, Mr. Wang, Mr. Huang and their concert parties (if any), and any Shareholder who is involved or interested in the Acquisition and/or the Whitewash Waiver will abstain from voting at the SGM in respect of the resolution(s) approving the Acquisition Agreement and the Whitewash Waiver. None of the Directors have a material interest in the Acquisition and the Whitewash Waiver and are not required and have not abstained from voting on the board resolutions in respect thereof. As at the Latest Practicable Date, Mr. Chen, Mr. Wang, Mr. Huang, the Vendor and their associates do not hold any Shares.

LETTER FROM THE BOARD

TAKEOVERS CODE IMPLICATIONS

As at the Latest Practicable Date, Prize Rich is the substantial Shareholder of 349,217,178 Shares, representing approximately 29.39% of the issued share capital of the Company and, upon Completion, 873,217,178 Shares, representing approximately 51.00% of the issued share capital of the Company as enlarged only by the issue of the Consideration Shares. Assuming full conversion of the Convertible Bonds at the initial conversion price upon Completion, Prize Rich would hold 1,091,943,493 Shares, representing approximately 56.55% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and Conversion Shares. In the absence of the Whitewash Waiver, Prize Rich and the parties acting in concert with it (if any) would be obligated to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by it and parties acting in concert with it (if any) pursuant to the Takeovers Code as a result of the issue of Consideration Shares.

An application to the Executive for the Whitewash Waiver has been made by Prize Rich pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that he will grant the Whitewash Waiver and the Whitewash Waiver, if granted, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. Prize Rich, which holds 349,217,178 Shares or approximately 29.39% of the issued share capital of the Company as at the Latest Practicable Date, Mr. Chen, Mr. Wang, Mr. Huang and their concert parties (if any) and any Shareholder who is involved in or interested in the Acquisition and/or the Whitewash Waiver shall abstain from voting at the SGM in respect of the resolution(s) approving the Acquisition Agreement and the Whitewash Waiver.

As Prize Rich will be holding more than 50% of the issued share capital of the Company upon Completion, Prize Rich may subsequently increase its shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

SGM

A notice convening the SGM to be held at the Luxembourg Room II, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 16 July 2014 at 10:30 a.m. is set out on pages SGM-1 to pages SGM-3 of this circular. Ordinary resolutions will be proposed at the SGM to consider, and if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares and the Convertible Bonds) and the Whitewash Waiver by way of poll.

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 to the Company's principal place of business at Unit 601, Tsim Sha Tsui Centre, 66 Mody Road, Tsimshatsui, Kowloon, Hong Kong but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. The completion and return of the enclosed form of proxy will not preclude you from attending and voting at the SGM or any adjournment should you so wish.

LETTER FROM THE BOARD

RECOMMENDATIONS

The Directors consider that the terms of the Acquisition are on normal commercial terms; and the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares and the Convertible Bonds) and the Whitewash Waiver are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (excluding the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Acquisition Agreement and the Whitewash Waiver to be proposed at the SGM.

The Independent Board Committee, having considered the advice of Octal Capital, is of the opinion that (i) the terms of the Acquisition and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable; and (ii) the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Acquisition Agreement and Whitewash Waiver. You are advised to read carefully the letter from the Independent Board Committee set out on page 31 of this circular. You are also advised to read carefully the letter from Octal Capital on pages 32 to 77 of this circular which contains advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and Whitewash Waiver.

ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and from the Independent Financial Adviser which are respectively set out on page 31 and pages 32 to 77 of this circular. Additional information is also set out in the appendices to this circular.

By order of the board of
China Investments Holdings Limited
You Guang Wu
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA INVESTMENTS HOLDINGS LIMITED 中國興業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 132)

30 June 2014

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF SOUTHERN LIMITED; AND (2) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular dated 30 June 2014 issued by the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Acquisition Agreement, the transactions contemplated thereunder and the Whitewash Waiver, and to advise the Independent Shareholders as to the fairness and reasonableness of the same. Octal Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATION

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 30 of the Circular, and the letter from Octal Capital which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, the transactions contemplated thereunder and the Whitewash Waiver as set out on pages 32 to 77 of the Circular.

After taking into consideration the advice from Octal Capital, we concur with the views of Octal Capital and consider that the Acquisition Agreement, the transactions contemplated thereunder and the Whitewash Waiver are on normal commercial terms, in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed in the SGM to approve the Acquisition Agreement and Whitewash Waiver.

Yours faithfully,

For and on behalf of the Independent Board Committee of

China Investments Holdings Limited

Chan Kwok Wai
*Independent non-executive
Director*

Chen Da Cheng
*Independent non-executive
Director*

Deng Hong Ping
*Independent non-executive
Director*

* For identification purpose only

LETTER FROM OCTAL CAPITAL



Octal Capital Limited
801-805, 8/F, Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

30 June 2014

To the Independent Board Committee and Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF SOUTHERN LIMITED AND WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 30 June 2014, of which this letter forms part, which has been despatched by the Company to the Independent Shareholders in relation to the Acquisition Agreement and the Whitewash Waiver. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular.

As set out in the Letter from the Board, on 5 June 2014 (after trading hours), CIL entered into the Acquisition Agreement with the Vendor, the Registered Holders and Prize Rich, pursuant to which CIL conditionally agreed to acquire from the Vendor the Sale Shares at the Consideration of HK\$497,400,000, of which HK\$331,168,000 will be satisfied by the issue of 524,000,000 Consideration Shares to Prize Rich at the price of HK\$0.632 per Consideration Share, and HK\$166,232,000 will be satisfied by the issue of the Convertible Bonds to Prize Rich. The Sale Shares, which were initially issued at their nominal value of HK\$10,000, represent the entire issued share capital of Southern Limited. The principal asset of Southern Limited is its holding of approximately 32.636% equity interest in the Project Company.

As the applicable percentage ratios for the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under the Listing Rules. As Prize Rich is a substantial Shareholder of approximately 29.39% of the issued share capital of the Company, Prize Rich is a connected person of the Company and therefore, the Acquisition also constitutes a connected transaction for the Company. Accordingly, the Acquisition is subject to the Independent Shareholders’ approval requirement under the Listing Rules.

LETTER FROM OCTAL CAPITAL

As at the Latest Practicable Date, Prize Rich is a substantial Shareholder of 349,217,178 Shares, representing approximately 29.39% of the issued share capital of the Company and, upon Completion, of 873,217,178 Shares, representing approximately 51.00% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. Assuming full conversion of the Convertible Bonds at the initial conversion price, Prize Rich would hold 1,091,943,493 Shares, representing approximately 56.55% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and Conversion Shares. In the absence of the Whitewash Waiver, Prize Rich and parties acting in concert with it (if any) would be obligated to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by it and parties acting in concert with it (if any) pursuant to the Takeovers Code as a result of the issue of Consideration Shares.

An application to the Executive for the Whitewash Waiver has been made by Prize Rich pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that he will grant the Whitewash and the Whitewash Waiver, if granted, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. Prize Rich, which holds 349,217,178 Shares representing approximately 29.39% of the issued share capital of the Company, whilst Mr. Chen, Mr. Wang, Mr. Huang, the Vendor and their associates did not hold any Shares as at the Latest Practicable Date. Prize Rich, Mr. Chen, Mr. Wang, Mr. Huang and their concert parties (if any), and any Shareholders who is involved in the Acquisition and/or Whitewash Waiver shall abstain from voting at the SGM in respect of the resolution(s) approving the Acquisition Agreement and the Whitewash Waiver. None of the Directors have a material interest in the Acquisition and the Whitewash Waiver and are not required and have not abstained from voting on the board resolutions in respect thereof. It is a condition precedent to the completion of the Acquisition Agreement that the Whitewash Waiver is granted by the Executive and approved by Independent Shareholders.

In accordance with the Listing Rules, the Independent Board Committee, comprising all its independent non-executive directors, namely Mr. Chan Kwok Wai, Mr. Chen Da Cheng and Mr. Deng Hong Ping, has been established to consider the terms of the Acquisition and the Whitewash Waiver and the transactions contemplated thereunder, and to advise the Independent Shareholders as to whether they are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Acquisition Agreement or the Whitewash Waiver.

The appointment of Octal Capital as the independent financial adviser in respect of the Acquisition Agreement and the Whitewash Waiver has been approved by the Independent Board Committee. Octal Capital is not connected with the directors, chief executive and substantial shareholders of the Company or the Vendor, the Registered Holders and Prize Rich or any of their respective subsidiaries or their respective associates or parties acting in concert with any of them and do not have any shareholding, directly or indirectly, in any member of the Group or 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 and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, there was no engagement between the Group and Octal Capital. In respect of this engagement, apart from normal professional fees payable to us in connection with

LETTER FROM OCTAL CAPITAL

this appointment, no arrangement exists whereby Octal Capital will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates or the Vendor, the Registered Holders and Prize Rich or parties acting in concert with any of them.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the executive Directors were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the executive Directors regarding the Group, the Acquisition and the Whitewash Waiver, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the executive Directors in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the executive Directors. The Company will notify the Shareholders of any material changes during the period after the dispatch of the Circular to the SGM (as defined under the Takeovers Code) as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be notified of any material changes to such information provided and our opinion as soon as possible after the Latest Practical Date and throughout the period between the date after the dispatch of the Circular and the SGM (as defined under the Takeovers Code). We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Vendor, the Registered Holders, Prize Rich, the Project Company and their respective associates, nor have we carried out any independent verification of the information supplied to us.

THE ACQUISITION

Principal factors and reasons considered

In arriving at our opinion regarding the terms of the Acquisition, we have considered the following principal factors and reasons:

1. Background of the Acquisition

The principal activity of the Company is an investment holding while its subsidiaries are mainly engaged in property development and investment in Hong Kong and the PRC, and hotel operation in the PRC.

LETTER FROM OCTAL CAPITAL

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2013 as set out in Appendix I to this Circular:

	For the year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
Turnover			
Hotel operations	34,594	33,420	25,714
Property investment	1,966	2,245	2,329
Other operating segment	0	73	1,573
Total	36,560	35,738	29,616
Gross profit	19,437	20,712	14,195
(Loss)/profit for the year from continuing operations	1,850	(6,336)	(11)
(Loss)/profit for the year attributable to owners of the Company	(60,956)	105,529	(1,419)

Source: Annual reports of the Company

For the year ended 31 December 2012

As per the annual report of the Company for the year ended 31 December 2012 (the “**Annual Report 2012**”), the Group recorded a turnover of approximately HK\$35.7 million, representing a decrease of approximately 2.3% as compared to the year ended 31 December 2011. For the same financial year, the Group recorded a turnaround of financial performance with a profit for the year attributable to owners of the Company of approximately HK\$105.5 million, which was largely attributed to the full recognition of the compensation payment of approximately HK\$373.6 million from the Chinese government authorities for halting fibreboard business and gain on reversal of payable of approximately HK\$41.9 million.

According to the Annual Report 2012, leverage on the improving domestic market, the management in the hotel business was able to explore new customers and raised average room rate by approximately 7.6% in 2012. However, due to uncertainty in the global economy and the continuous appreciation of RMB, the total turnover of hotel operation amounted to approximately HK\$33.4 million, representing a decrease of approximately 3.4% as compared to the year ended 31 December 2011. The annual operating profit of hotel operation was approximately HK\$1.6 million, representing a decrease of approximately 15.5% as compared to the year ended 31 December 2011.

LETTER FROM OCTAL CAPITAL

For the Group's property investment business, rental income from investment properties and properties held for sale for the year ended 31 December 2012 amounted to approximately HK\$2.2 million, which represents an increase of approximately 14.2% over than that of the last year. As mentioned in the Annual Report 2012, property occupancy rate was approximately 69.6%, representing an improvement of approximately 2.2% as compared to the year ended 31 December 2011.

For the year ended 31 December 2013

According to the annual report of the Company for the year ended 31 December 2013 (the "**Annual Report 2013**"), the Group recorded a turnover of approximately HK\$29.6 million, representing a decrease of approximately 17.1% as compared to the year ended 31 December 2012. The Group incurred loss from continuing operations of approximately HK\$6.3 million and HK\$11,000 for each of the two years ended 31 December 2013 respectively. For the same financial year, the Group recorded a loss for the year attributable to owners of the Company of approximately HK\$1.4 million mainly due to substantial decrease in the Group's revenue as the Group disposed its fibreboard business.

The Group's hotel business recorded turnover of approximately HK\$25.7 million, representing a decrease of approximately 23.1% over last year. The decrease was mainly due to external factors such as (i) continued RMB appreciation; and (ii) heavy-handed crackdown on the use of public funds for hospitality purposes as a result of government policies and new rules and regulations restricting officials' hospitality expenditure, leading to reduced tourist arrivals and business activities and also high pressure on room rates and catering consumption.

During the year ended 31 December 2013, the Group's property investment business recorded a turnover of approximately HK\$2.3 million, representing an increase of approximately 3.7% as compared to the year ended 31 December 2012. Property occupancy rate was approximately 71.8% during the year ended 31 December 2013, representing an improvement of approximately 2.2% as compared to the year ended 31 December 2012.

LETTER FROM OCTAL CAPITAL

The table below summaries the consolidated financial position of the Group as at 31 December 2013:

	As at
	31 December
	2013
	<i>HK\$'000</i>
	(audited)
Current assets	575,641
Non-current assets	139,771
Current liabilities	<u>(123,354)</u>
Net assets	<u>592,058</u>

Source: Annual Report 2013

The total assets of the Group amounted to approximately HK\$715.41 million as at 31 December 2013. As at 31 December 2013, bank balances and cash of approximately HK\$378.9 million, trade and other receivables of approximately HK\$137.6 million and property, plant and equipment of approximately HK\$128.3 million were major assets of the Group, which together accounted for approximately 90.1% of the total assets of the Group.

The Group's liabilities as at 31 December 2013, were current liabilities in nature and which amounted to approximately HK\$123.4 million. As at 31 December 2013, trade and other payables of approximately HK\$104.7 million were the major items of liabilities of the Group which accounted for approximately 84.9% of the total liabilities of the Group. The net assets of the Group amounted to approximately HK\$592.1 million as at 31 December 2013.

In September 2013, a wholly-owned subsidiary of the Company entered into a formal sales and purchase agreement for commodity housing in relation to the purchase of 98 office units situated at Guangdong-Hongkong Finance & Technology Park, Nanhai District, Foshan City, Guangdong Province, the PRC by way of pre-sale prior to the completion of the construction of the property, for a consideration of RMB199,975,466 (equivalent to approximately HK\$253,168,940). The Company intends to settle the remaining consideration by using its internal resources and banking facilities. As advised by the management of the Company, the 98 office units will be used for rental purpose.

On 17 January 2014, a wholly-owned subsidiary of the Company entered into a joint venture agreement and articles of association with three independent third parties for the establishment of a joint venture company as a platform for engaging in finance leasing business in Guangdong, the PRC. The initial registered capital of the joint venture company is RMB620 million whilst the Group has contributed RMB155 million (equivalent to

LETTER FROM OCTAL CAPITAL

approximately HK\$192 million), representing 25% of total registered capital. As at the Latest Practicable Date, the joint venture company has commenced its finance leasing business since March 2014.

Pursuant to Appendix I to this Circular, the Company intends to expand the annex building of Guilin Plaza in relation to the Group's hotel business. We understand such expansion is currently in preliminary planning and design stage and the expansion cost will be settled by using its internal resources and banking facilities.

As mentioned in the Annual Report 2013, the Group will continue to identify investment projects with good prospects and high potentials for creating additional value, so as to fulfil the Group's objective of transforming into an enterprise with comprehensive development in a range of businesses. The Directors believe that, the relevant experience, the technology and know-how employed in the combined heat and power plant used in its former fibreboard manufacturing business, in particular the development and use of environmental-friendly equipment, facilities and infrastructure (such as combined heat and power plant, sewage facilities and water purification systems), would assist the Group in its intended investment in environmental infrastructure projects.

2. Information of the Southern Group and overview of the power and heat industry

As at the Latest Practicable Date, each of Southern Limited, Nantang Power and Nanli Power is interested in approximately 5.202%, 12.139% and 15.295% respectively, and 32.636% in aggregate of the issued share capital of the Project Company.

Upon Completion, Southern Limited will become a wholly-owned subsidiary of the Company and the consolidated profit and loss and assets and liabilities of Southern Limited will be accounted for in the consolidated financial statements of the Company.

Southern Limited

Southern Limited is an investment holding company incorporated in Hong Kong with limited liability. Southern Limited has two wholly-owned subsidiaries, namely Nantang Power and Nanli Power, and directly holds approximately 5.202% equity interest in the Project Company. Aside from its equity interests in two wholly-owned subsidiaries and the Project Company, Southern Limited also holds three leasehold properties in Hong Kong for own use and rental with an aggregate market value of approximately HK\$32.5 million as at 31 March 2014.

The first property is located at Flat A7 on 2nd Floor of Block A, Yan On Building, No. 1 Kwong Wa Street, Kowloon, Hong Kong. Pursuant to Appendix V to this Circular, it is valued at HK\$6.5 million and is owner-occupied for residential usage. The second property is located at Unit No.1 on 14th Floor, Presidential Commercial Centre, 608 Nathan Road, Kowloon, Hong Kong. Pursuant to Appendix V to this Circular, it is valued at HK\$6.5 million and is owner-occupied for office usage.

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The third property is located at 17th Floor, Sing-Ho Finance Building, Nos. 166/168 Gloucester Road, Hong Kong. Pursuant to Appendix V to this Circular, it is valued at HK\$19.5 million and is occupied for office usage and has been leased to a third party with expiry in December 2016.

The Company engaged Associated Surveyors & Auctioneers Limited (the “**Valuer**”) to assist the Company in the valuation of the three properties held by Southern Limited (the “**Valuation**”). We have discussed with the Valuer and understand the Valuation is made on the basis of the “Market Value” in accordance with the “HKIS Valuation Standards (2012 Edition)” published by The Hong Kong Institute of Surveyors (the “**HKIS**”). We note that in performing the Valuation, the Valuer has adopted the direct comparison approach by making reference to comparable transactions within the same locality. Comparable properties of similar size, character and location are analysed and selected of each property in order to arrive at a fair comparison of capital values. We have also been advised by the Valuer that given the particulars of the three properties held by Southern Limited, the above valuation methodologies are commonly used in arriving at the Valuation. Furthermore, we have discussed with the Valuer to understand the assumptions which have been taken into consideration when performing the Valuation (the assumptions are set out in the valuation report in Appendix V to this Circular). Based on our discussion with the Valuer, our understanding of particulars of the three properties held by Southern Limited, and the Valuation were carried out in accordance with the “HKIS Valuation Standards (2012 Edition)” published by the HKIS, we believe that the assumptions taken into consideration by the Valuer and the market approach adopted by the Valuer in performing the Valuation are appropriate.

Nantang Power

Nantang Power is an investment holding company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of Southern Limited. Nantang Power holds approximately 12.139% equity interest in the Project Company. Aside from its equity interest in the Project Company, Nantang Power had no other material assets as at the Latest Practicable Date.

Nanli Power

Nanli Power is an investment holding company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of Southern Limited. Nanli Power holds approximately 15.295% equity interest in the Project Company. Aside from its equity interest in the Project Company, Nanli Power had no other material assets as at the Latest Practicable Date.

LETTER FROM OCTAL CAPITAL

Set out below is the audited consolidated financial information of the Southern Group as extracted from Appendix IIA to this Circular:

	For the year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
Rental income	325	456	456
Interest income	1	4	3
Administrative expenses	(327)	(224)	(250)
Net exchange (loss)/gain	(1,152)	6	(766)
Increase in fair value of investment property	2,100	1,500	900
Share of profit of Project Company	5,752	42,661	51,030
Profit for the year attributable to the owners of the Southern Group	6,674	44,378	51,347
Total comprehensive income attributable to owners of the Southern Group	12,612	45,289	59,026
			As at
			31 December
			2013
			<i>HK\$'000</i> (audited)
Non-current assets			398,401
Property, plant and equipment			2,296
Investment property			19,500
Interest in an associate			376,605
Current assets			5,294
Current liabilities			(132,638)
Tenants' deposits			(76)
Accrued expenses			(44)
Amount due to related company			(132,518)
Net assets			271,057

LETTER FROM OCTAL CAPITAL

For the year ended 31 December 2012

As set out above, the rental income of the Southern Group for the year ended 31 December 2012 was approximately HK\$456,000, representing an increase of approximately 40.3% from approximately HK\$324,972 for the year ended 31 December 2011. For the year ended 31 December 2012, the Southern Group recorded share of profit of the Project Company of approximately HK\$42.7 million, representing an increase of approximately 6.4 times from that for the year ended 31 December 2011. The profit attributable to the owners of the Southern Group for the year ended 31 December 2012 was approximately HK\$44.4 million, representing an increase of approximately 5.7 times from approximately HK\$6.7 million for the year ended 31 December 2011. Such increase was mainly due to the increase in share of profit of the Project Company.

For the year ended 31 December 2013

The rental income of the Southern Group remained steady at approximately HK\$456,000 for the year ended 31 December 2013. The profit attributable to the owners of the Southern Group for the year ended 31 December 2013 was approximately HK\$51.4 million, representing an increase of approximately 15.7% from approximately HK\$44.4 million for the year ended 31 December 2012. Such increase was mainly due to the increase in share of profit of the Project Company.

As at 31 December 2013

As at 31 December 2013, interest in an associate and cash and cash equivalent were the major assets of the Southern Group, which together accounted for approximately 94.6% of its total assets. No dividend has been declared by and paid to its shareholders for the three years ended 31 December 2013.

The total liabilities of the Southern Group as at 31 December 2013, which were all current liabilities, amounted to approximately HK\$132.6 million. Hence net current liabilities amounting to approximately HK\$127.3 million were recorded as at 31 December 2013. Upon completion of the Debt Transfer Agreement, the aggregate payable balance of HK\$132,518,036 (together with interests, if any) owed by the Debtors to Jinglong Holding would be legally transferred from the Debtors to Prize Rich. As the completion of the Debt Transfer Agreement had not yet taken place as at 31 December 2013, the aforesaid amount was still accounted for in the consolidated net assets of the Southern Group as at 31 December 2013. Upon Completion and as referred to in Appendix III to this Circular, the abovementioned net current liabilities would be rectified whilst the financial position of the Southern Group as at 31 December 2013 will substantially be improved and the net asset value would be increased by the same amount from approximately HK\$271.1 million to approximately HK\$403.6 million.

LETTER FROM OCTAL CAPITAL

Project Company

The Project Company was established in Nanhai District, Foshan City, Guangdong Province, the PRC on 22 September 1995 with a total registered capital of US\$46,215,100. The Project Company is principally engaged in cogeneration of thermal power and heat and operates a combined heat and power plant in Nanhai District, Foshan City, Guangdong Province, the PRC. As at the Latest Practicable Date, the Project Company is held as to approximately (i) 67.364% by Jinglong Holding (a wholly-owned subsidiary of Guangdong Nanhai Holding, a substantial Shareholder beneficially interested in approximately 29.39% of the issued share capital of the Company as at the Latest Practicable Date); and (ii) 32.636% by Southern Limited and its two subsidiaries. Both Guangdong Nanhai Holding and Southern Limited are ultimately controlled by the Vendor.

Based on the legal opinion of the PRC legal adviser of the Company, the operating period of the Project Company was 17 years from 22 September 1995 to 22 September 2012. As at the Latest Practicable Date, the Project Company received approval from the Chinese government authorities to further extend its operating period to 22 September 2022. Pursuant to the Acquisition Agreement, it is a condition precedent to extend the operating period of the Project Company to 22 September 2033.

Currently, through power grid in Guangdong, the Project Company provides approximately 1.3 terrawatt-hour (“**Tw.h**”) of electricity power annually and, through steam pipelines, supplies heated steam covering an adjacent area of approximately 5.3 square kilometers (“**sq.m**”) in Nanhai District, Foshan City, Guangdong Province, the PRC. Heated steam is a joint product during electricity generation process.

The Project Company has an installed capacity of 225 megawatt (“**MW**”), which it is equipped with four 25MW extraction condensing generators, one 50MW extraction condensing generator and one 75MW extraction back pressure generator. The combined maximum steam capacity of the generators is 565 tonnes per hour, which the Project Company is capable of producing up to 4.0 million tonnes of steam annually (assuming 300 working days per annum). For the year ended 31 December 2013, the Project Company supplied approximately 1,099.3 million kilowatt-hour (“**kw.h**”) of power and approximately 1.34 million tonnes of heated steam. Pursuant to the notice from Price Control Administration of Guangdong Province of the PRC dated 8 January 2008, the Project Company’s desulfurisation facilities have fulfilled the technical and environmental requirements and therefore it has been entitled to a desulfurisation subsidy of RMB0.015 per kw.h from 8 January 2008. As at the Latest Practicable Date, the Project Company is in the process of upgrading the denitration facilities, and, to the best of the knowledge of the Project Company’s management and the Directors believed, the Project Company is, apart from other traditional boiler plants, the only cogeneration company supplying centralised heated steam in the Textile Industrial Base of Xiqiao, Guangdong (which is part of the Guangdong Cyclic Economy Industrial Park). The Project Company’s management remains positive towards sustainable demand of heated steam given gradual phasing out of small-scale traditional boiler plants in the Textile Industrial Base of Xiqiao Guangdong and hence plans to expand its annual heated steam capacity by 144,000 tonnes.

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Pursuant to Appendix IIB to this Circular, for the three years ended 31 December 2013, the largest customer of the Project Company, being a state-owned power grid company in the PRC, contributed approximately 46.6%, 50.5% and 50.2% of the total revenue of the Project Company respectively. As advised by the management of the Project Company, the Project Company has maintained a long-term business relationship with the largest customer for over 18 years. The Project Company also supplies electricity to customers other than the power grid company. Revenue from such customers contributed to approximately 25.0%, 23.9% and 24.7% of the Project Company's total revenue for the three years ended 31 December 2013 respectively. In relation to the Project Company's heated steam business, the Project Company's heated steam customers are mainly in the textile industry business. For the three years ended 31 December 2013, the largest heated steam customer, being a textile company located in the PRC, contributed approximately 13.0%, 14.7% and 14.5% of the total heated steam revenue and 3.7%, 3.8% and 3.7% of the total revenue of the Project Company respectively. We were advised the Project Company has maintained a long-term business relationship with the largest heated steam customer for over six years.

Set out below is the financial information of the Project Company as extracted from Appendix IIB to this Circular:

	For the year ended 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Revenue	865,093	923,550	875,576
Cost of sales	(837,246)	(754,943)	(677,187)
Gross Profit	27,847	168,607	198,389
Other income	29,542	35,212	33,408
Selling expenses	(5,323)	(10,543)	(11,492)
Administrative expenses	(18,505)	(20,893)	(32,102)
Finance costs	(17,542)	(29,986)	(19,206)
Income tax expense	(1,365)	(35,909)	(44,430)
Profit for the year	14,654	106,488	124,567
Dividend paid	12,790	10,000	20,000

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	<u>As at</u> <u>31 December</u> <u>2013</u> <i>RMB'000</i> (audited)
Non-current assets	530,126
Property, plant and equipment	444,557
Others	85,569
Current assets	591,673
Amount due from an ultimate holding company	308,869
Others	282,804
Current liabilities	(252,241)
Net assets	869,558

Based on the operating information provided by the Project Company, we set out below summarised analysis of (i) sales of electricity and heated steam and (ii) purchase of coal for the three years ended 31 December 2013:

	For the year ended 31 December		
	2011	2012	2013
Amount			
– Electricity (<i>RMB'million</i>)	619.8	686.7	655.2
– Heated steam (<i>RMB'million</i>)	245.3	236.8	220.4
– Coal (<i>RMB'million</i>)	625.5	549.2	463.6
Quantity			
– Electricity (<i>million kw.h</i>)	1,064.1	1,175.1	1,099.3
– Heated steam (<i>million tonne</i>)	1.27	1.31	1.34
– Coal (<i>million tonne</i>)	1.01	1.03	1.03
Average Price			
– Electricity (<i>RMB/kw.h</i>)	0.58	0.58	0.60
– Heated steam (<i>RMB/tonne</i>)	193.2	180.8	164.5
– Coal (<i>RMB/tonne</i>)	619.3	533.2	450.1

Source: Operation analysis by management of the Project Company

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For the year ended 31 December 2012

As set out above, the revenue of the Project Company for the year ended 31 December 2012 was approximately RMB923.6 million, representing an increase of approximately 6.8% from approximately RMB865.1 million for the year ended 31 December 2011. Such increase was attributable to the increase in revenue from the sale of electricity, which was partially offset by the slight decrease in supply of heated steam. Based on information provided from the management, for the years ended 31 December 2011 and 2012, the Project Company supplied approximately 1,064.1 million kw.h and 1,175.1 million kw.h of power respectively, and approximately 1.27 million tonnes and 1.31 million tonnes of heated steam respectively. Major cost of the Project Company was coal, of which approximately 1.01 million tonnes of coal was purchased at approximately RMB625.5 million for the year ended 31 December 2011 and 1.03 million tonnes of coal was purchased at approximately RMB549.2 million for the year ended 31 December 2012. Other costs included direct labour, factory overheads, desulfurisation cost and other auxiliary costs. The gross profit for the year ended 31 December 2012 was approximately RMB168.6 million, representing an increase of approximately 5.1 times as compared to the year ended 31 December 2011 of approximately RMB27.9 million, which is mainly attributable to (i) decrease in average coal price of approximately 13.9% and (ii) increase of volume of electricity supply of approximately 10.4%. The average electricity tariff remained at approximately RMB0.58 per kw.h in 2011 and 2012 whilst average selling price of heated steam generally decreased in line with coal purchase price.

Other income comprises interest from bank deposits, rental income from related companies and sales of scrap materials such as coal ash. Increase in other income in 2012 was mainly due to interest income from increased average bank balance. Selling expenses doubled in 2012 mainly due to the increase in sales tax and value-added tax surcharges whilst administrative expenses increased approximately 13.0% compared to 2011 mainly attributable to the increase in loss on disposal of property, plant and equipment. Increase in finance costs was mainly attributable to the loan from related company increased between 2011 and 2012. As a result of the above, profit attributable to the owners of the Project Company increased from approximately RMB14.7 million to approximately RMB106.5 million in 2012.

For the year ended 31 December 2013

The revenue of the Project Company for the year ended 31 December 2013 was approximately RMB875.6 million, representing a decrease of approximately 5.2% from approximately RMB923.6 million for the year ended 31 December 2012. Such decrease was attributable to both the decrease in revenue from the sale of electricity and the decrease in supply of heated steam. For the year ended 31 December 2013, the Project Company supplied approximately 1,099.3 million kw.h of power and approximately 1.34 million tonnes of heated steam. During the year, the Project Company purchased approximately 1.03 million tonnes of coal which amounted to approximately RMB463.6 million. The gross profit for the year ended 31 December 2013 was approximately RMB198.4 million, representing an increase of approximately 17.7% as compared to the year ended 31 December 2012, which is mainly

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attributable to decrease in average coal price of approximately 15.6% but set off by decrease of average selling price of heated steam of approximately 9%. The average electricity tariff increased to approximately RMB0.60 per kw.h in 2013.

Other income slightly decreased to approximately RMB33.4 million in 2013 which is attributable to the decrease in interest income derived from loans to related companies and deposits in banks. Whilst selling expenses generally remained steady, administrative expenses increased by approximately 53.6% in 2013 mainly due to the increase in loss on disposal of property, plant and equipment. Decrease in finance costs was mainly due to decrease in interest expenses as a result of reduction in outstanding amount of bank loan (which has been fully repaid as at 31 December 2013). As a result of the above, profit attributable to the owners of the Project Company increased from approximately RMB106.5 million to approximately RMB124.6 million in 2013.

As at 31 December 2013

As at 31 December 2013, property, plant and equipment, trade and other receivables, amount due from an ultimate holding company, Guangdong Nanhai Holding, and cash and cash equivalent were major assets of the Project Company, which together accounted for approximately 89.9% its total assets. As at 31 December 2013, property, plant and equipment amounted to approximately RMB444.6 million, including combined heat and power plant, warehouse for the storage of coal and steam pipelines and the pier etc. The Project Company is legally interested in 22 parcels of land with a total site area of approximately 151,194 sq.m. On 1 December 2013, the Project Company entered into two lease agreements with Jinglong Holding for the rental of warehouse and meter room until 31 December 2016 with an aggregate area of 5,274.06 sq.m. Pursuant to the loan agreement entered between the Project Company and Guangdong Nanhi Holding, the amount due from Guangdong Nanhai Holding of RMB358.6 million is repayable on or before end of October 2014 with annual interest rate of 5.4%.

The Project Company normally grants 30 days' credit period to customers including power grid company and surrounding enterprises for the use of steam and such trade receivables are settled normally by cash. As at 31 December 2013, trade and other receivables amounted to approximately RMB138.9 million. No provision for impairment of receivables was made during the three years ended 31 December 2013.

The total liabilities of the Project Company amounted to approximately HK\$252.2 million as at 31 December 2013, of which trade and other payables were the major items accounting for approximately 68.3% of the total liabilities of the Project Company. As at 31 December 2013, trade and other payables of the Project Company amounted to approximately RMB172.2 million. The average credit period for the purchase of coal is 90 days which was settled in cash.

The net asset value of the Project Company amounted to approximately RMB869.6 million as at 31 December 2013. Commitments in relation to capital expenditure on fixed assets and leasehold land as at 31 December 2013 amounting to approximately RMB107.96

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million were related to the development and construction work of denitration and desulfurisation facilities of the Project Company which is to be funded by current cash and bank balance and the upcoming repayment of amount due from Guangdong Nanhai Holding.

The Project Company had a steady dividend payout history with amount from RMB10 million to RMB20 million each year to the PRC joint venture partner for the three years ended 31 December 2013. As referred to in Appendix IIB to this Circular, the retained profit of the Project Company as at 31 December 2013 include a sum of approximately RMB112.7 million which is not yet declared and distributed to the then foreign joint venture partners of the Project Company (i.e. the Vendor). Pursuant to the Letter from the Board, the Vendor has undertaken to CIL to, after Completion, procure the Project Company, upon request of Southern Limited, Nantang Power and Nanli Power, to distribute unpaid dividends to Southern Limited, Nantang Power and Nanli Power or apply such dividends as capital contributions from Southern Limited, Nantang Power and Nanli Power upon any future increase of its registered capital. As declaration and distribution of such dividends and/or the paid up of registered capital by such amounts have to be approved by the board of the Project Company, CIL has obtained such undertaking from the Vendor to facilitate such distribution and payment, if and when required. As advised by the Company, there is presently no scheduled time for requesting the distribution of the unpaid dividends or for capital injection for the Project Company. The cash and bank balance of Southern Limited will be enhanced if such dividend is declared and paid to Southern Limited post-Completion.

Undertakings

Save as the undertaking of the distribution of unpaid dividends of the Project Company mentioned above, pursuant to the Letter from the Board, Prize Rich has undertaken to CIL to compensate CIL and, following Completion, Southern Limited, Nantang Power, Nanli Power and the Project Company against any losses, claims, liabilities and expenses suffered by them as a result of any breach of the Acquisition Agreement by the Vendor or by the Registered Holders. The aggregate liabilities of the Vendor and Prize Rich to CIL under the Acquisition Agreement are up to an agreed amount of HK\$331,600,000. The amount of HK\$331,600,000 was determined with reference to the amount of Consideration minus 32.636% of the value of the property, plant, equipment and land of the Project Company (as disclosed in its audited consolidated accounts as at 31 December 2013), being the most substantial fixed assets of the Project Company. Such amount represented the amount of Consideration paid by CIL and not recoverable in the extreme case if the Project Company ceases to operate its business and its assets have to be realised for value.

Pricing of electricity and heated steam

The price of electricity is set and controlled by the Chinese government under the coal-electricity price linkage mechanism, whereas the price of heated steam is determined with reference to (i) the upper price ceiling set by the Chinese government authority; (ii) the market demand; and (iii) coal price. For the year ended 31 December 2013, the average heated steam price per tonne set by the Project Company to heated steam customers was in general below the statutory price ceiling.

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Cost of coal

The cost of coal accounted for majority of the cost of the Project Company. Coal prices in the PRC were at a decreasing trend from 2011 to 2013. The average coal price of the Project Company decreased from an average price of approximately RMB619 per tonne in 2011 by approximately 13.9% to approximately RMB533 per tonne in 2012, and further decreased by approximately 15.6% to approximately RMB450 per tonne in 2013. Such reduction in coal prices resulted in the decrease in cost of sales and contributed to the improved profitability of the Project Company for each of the three years ended 31 December 2013 (the Project Company's gross profit increased from approximately RMB27.8 million to RMB168.6 million, and to RMB198.4 million, representing gross profit margins of approximately 3.2%, 18.3% and 22.7%, for the three years ended 31 December 2011, 2012 and 2013, respectively). As stated in the Letter from the Board, the Project Company's management is of the view that coal price in the PRC is likely to remain at a relatively low level and unlikely to rise significantly in the near future, allowing the Project Company to maintain its costs and profitability.

Regulatory requirements and compliance

(i) Operational and environmental regulations

As stated in the Letter from the Board, the Project Company is subject to the operational and environmental regulations and standards of the PRC applicable to the power supply industry. Among which, new environmental safeguards such as the Emission Standard of Air Pollutants for Thermal Power Plants GB13223-2011 (《火電廠大氣污染物排放標準》GB13223-2011) (the "Emission Standard") which regulates the emission of chemicals by the Project Company will become applicable to the Project Company in July 2014 and Foshan Electric Power Industry "Ultra-clean Emission" Transformation Plan (Fo Fu Ban Han [2014] No.189) (《佛山市電力行業“超潔淨排放”改造工作方案》(佛府辦函[2014]189號)) which the Project Company is expected to upgrade its facilities to ensure that its emission levels of chemicals and dust will meet the limits specified under the new Emission Standard by 1 March 2015.

The PRC legal adviser of the Company is of the view that, so far as the Project Company completes the upgrading of its facilities to ensure that its chemicals and dust emission levels meet the limits specified under the new Emission Standard in accordance with the Foshan Electric Power Industry "Ultraclean Emission" Transformation Plan (Fo Fu Ban Han [2014] No.189) (《佛山市電力行業“超潔淨排放”改造工作方案》(佛府辦函[2014]189號)) by 1 March 2015, the Project Company will not be subject to administrative penalties from relevant authorities under the new Emission Standard after the new Emission Standard becomes applicable. It is expected that the upgrading can be completed by the required time limit.

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(ii) Power supply to state-owned power grid and relatively remote areas

Apart from the Project Company's major customer which is a state-owned power grid company (which in turn manages power supply to enterprises), the Project Company also supplies electricity to relatively remote areas not covered by the public power supply facilities. As the setting up of centralised electricity supply facilities involves land requisitions, compensation and the construction of infrastructure, it is difficult for public power supply to cover these areas.

Although in accordance with:-

- (a) the Regulations on the Administration of Power Grid Dispatch (《電網調度管理條例》), the power grids in the PRC operates under the principle of centralised dispatch (統一調度原則). The Project Company's power generators have been assigned to the power grid in Guangdong, the PRC, and are under the centralised dispatch of Guangdong and the Project Company is restricted from supplying electricity to other consumption units without separate approval; and
- (b) the Regulations on Supply and Use of Electric Power (《電力供應與使用條例》), for areas that cannot be reached by the public power supply facilities, power-supplying enterprises can authorise power generating units to supply electricity to nearby areas, and power generating units shall not provide electricity to other parties without authorisation;

the PRC legal adviser of the Company are of the view that although the aforesaid arrangement of power supply has not obtained official approval, in light of the Electric Power Law (《電力法》) which provides that investors in electric power shall enjoy the legal rights in electricity generated through their investments and such investors have priority in using electricity from grid-connected power generation and have the discretion regarding the use of electricity generated from private power plants not connected to the power grids, and since the electric power facilities relating to the aforesaid power supply are mainly invested by villager's committees who are the main consumption and the aforesaid arrangement of power supply had taken place before the Regulations on the Administration of Power Grid Dispatch (《電網調度管理條例》) and the Regulations on Supply and Use of Electric Power (《電力供應與使用條例》) became effective, rights including those of the supply and use of electricity relating to such electric power facilities are legally ensured.

The PRC legal adviser of the Company are of the view that, and consistent with the Project Company's understanding, with regard to the aforesaid arrangement of electricity supply, it is unlikely that the relevant authorities will compel any change and the possibility of such arrangement being treated as void or subject to claim is also relatively low and the Project Company has not been penalised by any relevant authorities.

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(iii) The supply of heated steam

In relation to the supply of heated steam, applicable laws and regulations are mainly enacted locally by each individual province and the Guangdong Province has no specific administrative regulations in this respect. In addition, all of the Project Company's power generators were certified combined heat and power generation units by the Economic & Information Commission of Guangdong Province.

Save as disclosed in paragraph (i) to (ii) above, the PRC legal adviser of the Company are of the view that, the Project Company has complied with the major PRC laws, regulations and rules relevant to the carrying out of business and operation of the Project Company (including the existing operational and environmental laws, regulations and rules) in all material aspects, and the Project Company has not been subject to any material administrative penalties from relevant authorities.

Future development plan and estimated capital requirement

According to the notice of Ministry of Environmental Protection of the People's Republic of China announced in February 2013 and the requirement of environmental working plan in Nanhai District, Foshan City, Guangdong Province, the PRC between 2011 to 2015 published in August 2013, the Project Company plans to invest approximately RMB177 million in the environmental upgrade of three of their boilers. Such upgrade is currently in the bidding stage, where the Project Company is receiving bids from contractors to perform the construction work on its three boilers. Such construction work on the three boilers is expected to complete by around March 2015, being the required time limit under the new Emission Standard. In addition, the Project Company is currently expanding its steam pipelines which is expected to increase the Project Company's annual heated steam capacity by approximately 144,000 tonnes. The expansion project is estimated to cost approximately RMB7.2 million and such construction work on the steam pipelines has commenced and expected to complete in December 2014.

The Directors are of the view that with the internal resources of the Project Company as at 31 December 2013 and the cash inflow under the Debt Transfer Agreement, the Company has sufficient resources to cover the Project Company's expansion plan.

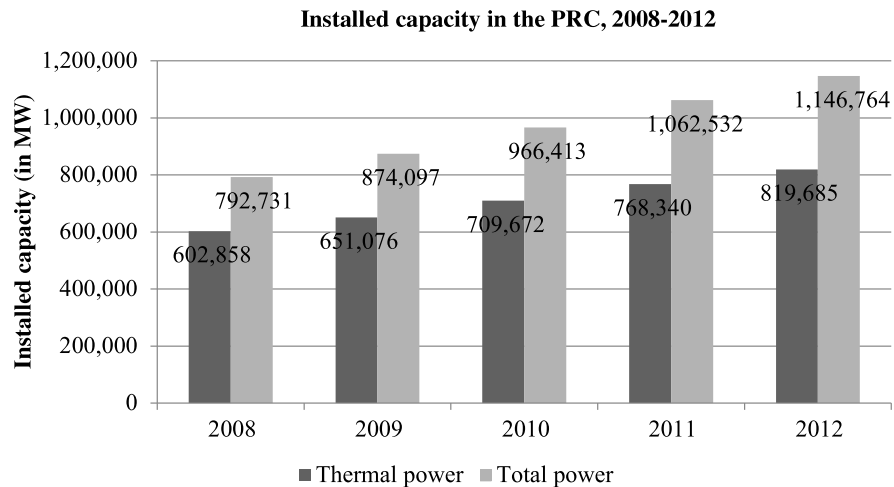
Industry overview

According to the National Bureau of Statistics of China, China's nominal GDP increased from approximately RMB31,404.5 billion in 2008 to RMB51,947.0 billion in 2012, representing a compound annual growth rate ("CAGR") of approximately 13.4%, surpassing Japan to become the second largest economy in the world after the United States. During the period, the Chinese government set its policy direction towards promoting urbanisation and increasing personal income and domestic consumption with a view to sustaining China's economy growth. The percentage of urban to total population of China has increased from

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40.5% in 2003 to 52.6% in 2012, suggesting an increasing number of people have been moving from rural areas to urban cities in the past decade. The Board considers sustainable economic growth and continuous urbanisation are key drivers for electricity consumption.

According to the China Electricity Council, thermal power, particularly coal-fired power, remained as the primary source of electricity generated in the PRC for the past years, for which investment in thermal power generation projects amounted to approximately RMB92.8 billion in 2013. The following chart sets forth the thermal power and total installed capacity of power generation in China for the periods indicated:

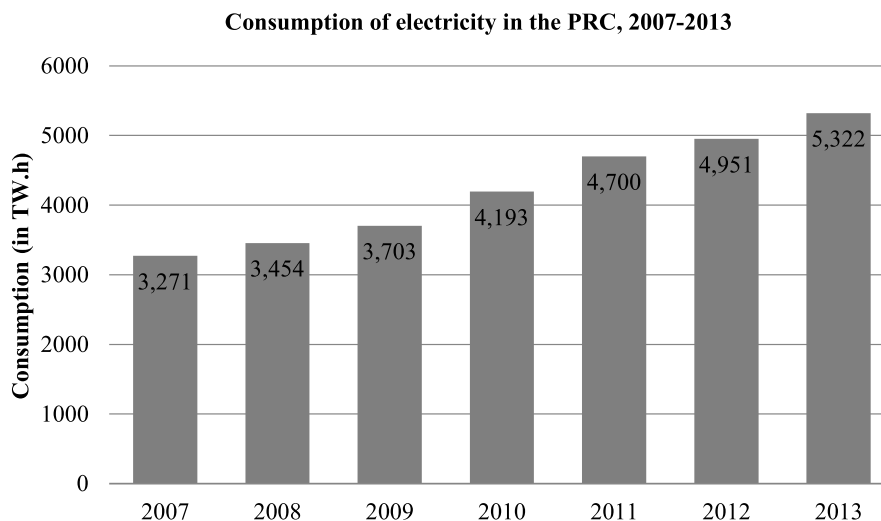


Source: *The China Electricity Council*

China's power sector continued to demonstrate considerable increase in total installed capacity in recent years. During 2008 to 2012, total installed capacity increased at a CAGR of approximately 9.67%, while that of thermal power slightly lagged behind at approximately

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7.98%. Such trend reflected the gradual shift from traditional thermal power into various forms of cleaner energies, as the Chinese government placed increasing emphasis on environment protection.



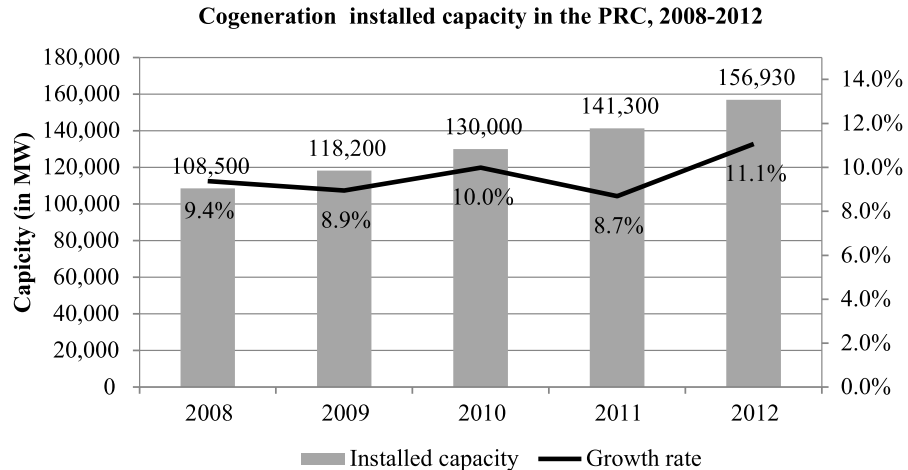
Source: National Bureau of Statistics of China, China Electricity Council

The total consumption of electricity in the PRC increased from approximately 4,193 TW.h in 2010 to approximately 4,700 TW.h in 2012, representing a growth of approximately 12.09%. During 2007 to 2011, total consumption of electricity in the PRC increased at a CAGR of approximately 9.48%. According to the China Electricity Council, electricity consumption in the PRC reached approximately 5,322 TW.h in 2013, representing growth of approximately 7.5% as compared to 2012.

One of the measures adopted by the Chinese government to reduce pollution and improve energy conservation is to strategically promote cogeneration in areas where demand for thermal power and heat both exists. Cogeneration, or combined thermal power and heat (CHP), refers to the simultaneous generation of electricity and useful heating at a single thermal power plant. Compared to traditional thermal power generation, it has the primary

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advantage of higher energy conversion efficiency (up to 80%) by capturing the excess heat which would be normally lost in conventional thermal power plants. The following chart sets forth the cogeneration installed capacity in the PRC for the periods indicated:



Source: *China Combined Heat and Power (CHP, Cogeneration) Industry Report (2014-2018), Market Prospect and Investment Strategic Planning, Qianzhan Industry Research Institute*

According to the Qianzhan Industry Research Institute, in 2011 China had a total of 141,300 MW cogeneration capacity installed. In 2012, this increased by approximately 11.1% to 156,930 MW, which accounted for approximately 19.2% of China's total installed power capacity in 2012.

Pursuant to the《工業節能“十二五”規劃》(The 12th Five-Year Planning on Industrial Efficiency) published by the Ministry of Industry and Information Technology of China in February 2012, and the notice on cogeneration development edited by the National Development and Reform Commission of China and published by the National Energy Administration of China in June 2011, the Chinese government has listed cogeneration as one of its primary energy efficiency projects and intended to significantly strengthen the use of cogeneration in the industrial sector, particularly the steel manufacturing, non-ferrous metal, chemical and light industries by 2015. The National Development and Reform Commission has also set a goal of 200,000 MW of combined heat and power energy by 2020, which would be approximately 22% of the installed power capacity expected that year. It estimated the total investment in cogeneration projects during the five-year period of 2011 to 2015 would reach a total of RMB70 billion. The Chinese government would continue to improve and refine the investment, construction and pricing regulations in relation to the cogeneration sector to encourage its continued development.

Pursuant to the《重點區域大氣污染防治“十二五”規劃》(The 12th Five-Year Planning on Air Pollution Prevention and Control in Key Regions) jointly published by the Ministry of Environmental Protection of China, Ministry of Finance of China and National Development and Reform Commission of China in October 2012, the Chinese government will implement the following measures to tackle the worsening air pollution in the mainland China: (i) save for cogeneration power plants, prohibits the construction of high polluting coal-fired plants in

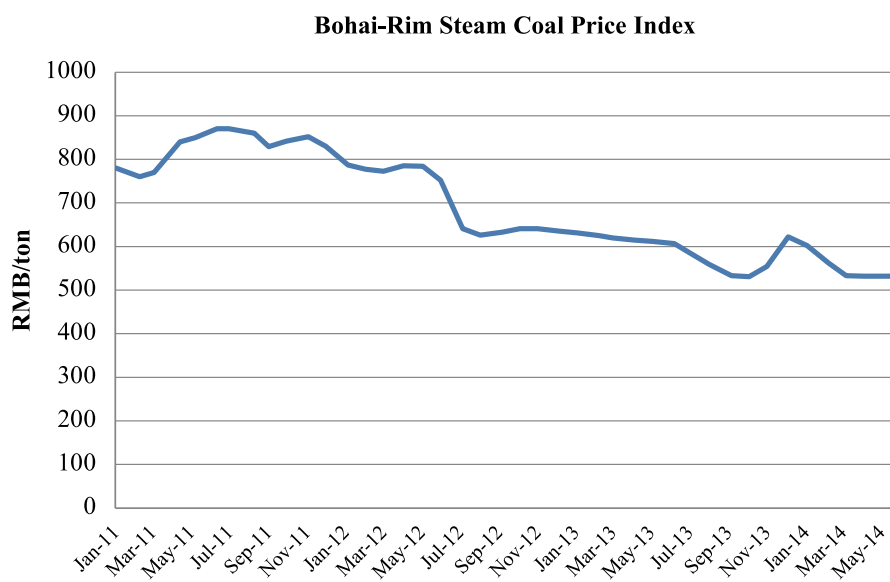
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developed cities; (ii) expedite the phasing out of traditional coal-fired boiler plants which fall below a certain installed capacity level or have reached the end of its designed life; (iii) enforce the adoption of cogeneration plants as the source of heated steam in newly established industrial parks; (iv) adopt centralised heated steam supply in all existing industrial parks by 2015; and (v) promote the adoption of cogeneration in other industrial areas and developed cities in China. Specifically, with regard to the phasing out of coal-fired boiler plants in the Pearl River Delta region, the Chinese government has set a goal of replacing 127 and 36 coal-fired boilers with cogeneration plants in Zhongshan and Zhaoqing respectively by 2015, and similar measures in other cities in the area are expected to follow.

In addition, to further reduce the pollutants released by coal-fired power plants, the Ministry of Environmental Protection and the National Development and Reform Commission of China have jointly promulgated a revised policy in March 2014 regarding the installation of desulfurisation, denitration and dust removal facilities on existing coal-fired power plants. The notice primarily states that power plants equipped with such pollutant reduction facilities are entitled to (i) a desulfurisation subsidy of RMB0.015 per kw.h, (ii) a denitration subsidy of RMB0.01 per kw.h and (iii) a dust removal subsidy of RMB0.02 per kw.h once such facilities have fulfilled certain technical and environmental requirements as listed in the notice and have passed the acceptance check conducted by the local environmental protection department. Meanwhile it is also stated that the environmental protection departments would expedite such acceptance check process to facilitate and encourage the installation of such pollutant reduction facilities nationwide.

Since 2004, the Chinese government has implemented the coal-electricity price linkage mechanism in the energy industry. The coal-electricity price linkage refers to a mechanism on the adjustment of electricity prices approved by the Chinese government based on the fluctuation of coal prices. When coal price increases, the price of electricity which uses coal as a raw material will increase correspondingly. However, a certain percentage on the cost due to the increase of coal price must be absorbed by the power companies.

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Source: *hexun.com* (www.hexun.com.tw), www.huanancoal.com

With reference to the Bohai-rim steam coal price index (a general term to reflect the FOB price level positions and volatility of the index system of the Bohai-rim steam coal port), the coal price decreased from RMB829/tonne in September 2011 to RMB633/tonne in September 2012. It then further decreased to approximately RMB533/tonne in September 2013. On 11 June 2014, the Bohai-rim steam coal price was at RMB532/tonne.

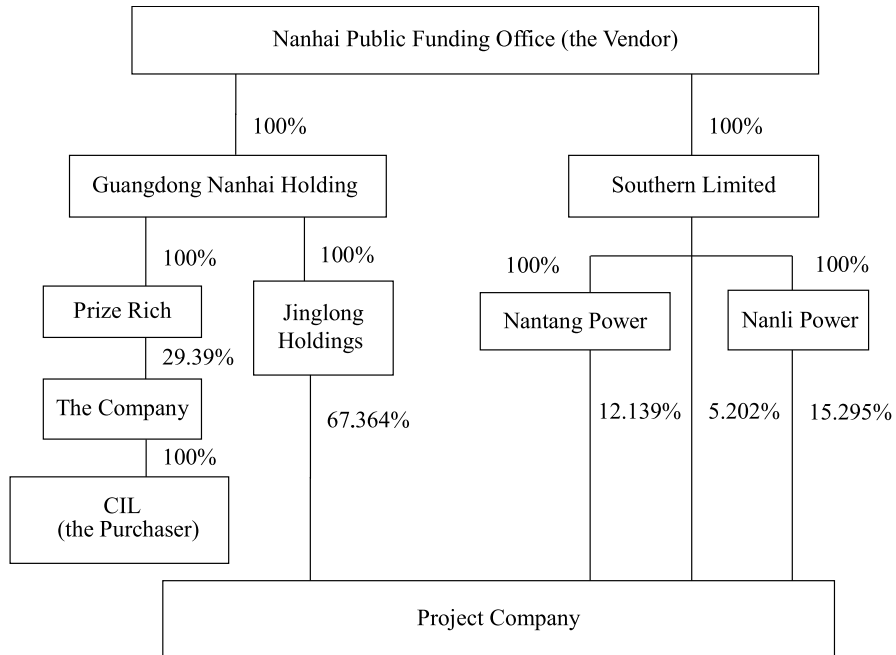
According to China Economic Information Network, in 2012, although the economic situation stabilised in the PRC, the coal industry faced an oversupply, storage raise, decrease in coal price and other unfavourable factors in the market. In 2012, coal production in the PRC was approximately 36.6 million tonnes. The growth rate decreased by 4.7% compared to that of 2011. As mentioned in the China Energy News, the “golden years” of coal market came to an end in 2013 due to decrease of coal prices. Corporate profits have since fallen sharply with increased environmental pressures, restructuring of energy industry and the impact of imported coal and coal prices slump. The end of the “golden years” forced coal enterprises to accelerate industrial restructuring and upgrading. The PRC government authority issued an opinion in November 2013 in relation to promote steady operation of the coal industry. The opinion mentioned, by the end of 2013, the PRC government will focus on rectifying the fees of the coal industry in the coal producing provinces. The PRC government will ban all kinds of arbitrary charges, fund raising and levies, and minimise the burden of coal enterprises. The coal resources tax will change from amount levied to ad valorem. In the early 2014, China Coal Industry Association have studied the evaluation guide of commercial quality of coal in the PRC which believed there will be a policy implement in 2014 to limit the use of low quality coal. From an economic point of view, the demand of coal will continue to increase slightly in 2014. However due to adequate production capacity of coal in the PRC, coal price is unlikely to rise. Under the current situation of the PRC government, energy industry will require to invest greater amount in terms of desulfurisation and denitrification.

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3. *Shareholding structure of Southern Limited and the Project Company*

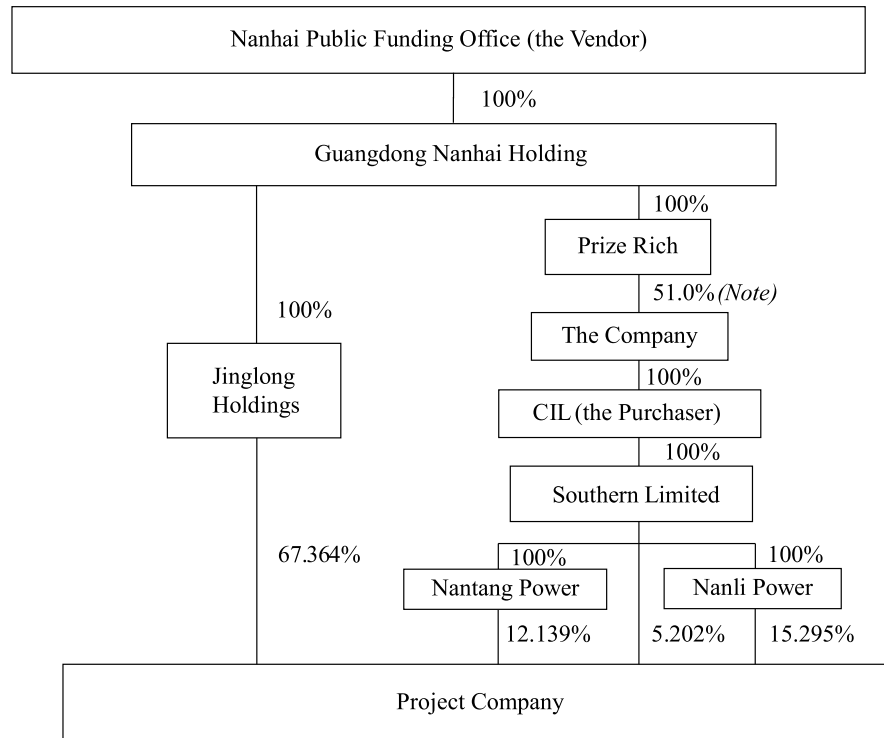
Set out below are the shareholding structure charts of Southern Limited and Project Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion:

(i) *As at the Latest Practicable Date*



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(ii) *Immediately after Completion*



Note: Assuming that the conversion rights attaching to the Convertible Bonds are fully exercised and there is no other change in the issued share capital of the Company, Prize Rich's equity interests in the Company will increase to approximately 56.55%.

4. *Reasons for the Acquisition*

As stated in the Letter from the Board, the Project Company holds and operates a combined heat and power plant in Nanhai District, Foshan City, Guangdong Province, the PRC. The Directors believe that the cogeneration of thermal power and heat business has untapped potential in the PRC, and are of the view that the heated steam supply capacity of the Project Company is currently under-utilised. Furthermore, the Directors believe sustainable growth of the cogeneration industry in the PRC together with the encouragement from the Chinese government on continuous development of cogeneration of thermal power and heat industry will benefit the Project Company's business. As there is more flexibility in the price determination of heated steam, heated steam operations are generally more profitable than traditional thermal power operations. The Directors are confident that the future prospects of the Project Company and in particular, its heated steam operations will help to improve the financial performance of the Group and achieve the goal of continued growth for the Group.

As referred to in Appendix IIB to this Circular, the Project Company generated operating profit before working capital changes amounting to RMB63.6 million, RMB204.9 million and RMB230.9 million for the three years ended 31 December 2013. We note that from the Annual Report 2013 that the Group intends to identify investment projects with good prospects and high potentials for creating additional value, which the Directors believe the Acquisition would allow the

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Group to participate in cogeneration of thermal power and heat businesses in the PRC. Upon Completion, the Group will indirectly consolidate, under equity method, assets and liabilities of the Project Company into the accounts of the Company. The Directors believe that it would be able to improve the Group's financial from the share of the Project Company's financial results and its net asset value.

As advised by the Company, the Company has carried out analysis on the thermal power and heat generation industry in the PRC and due diligence on the business, operation and financial position of the Project Company. We have discussed with the Company, reviewed documents and understand that the Group previously owned cogeneration of thermal power and heat facilities which supplied heated steam and power to the fibreboard business of the Group before its cease of fibreboard operation; hence the Group can apply its technical knowledge and experience of heated steam and power operation and resources to the Project Company to strengthen the position in the cogeneration industry.

Pursuant to the Letter from the Board, the Acquisition will allow the Group to access the cogeneration of thermal power and heat business in the PRC, enabling the Group to explore the potential of the industry. Through board representation in the Project Company, CIL's approval is required in important decision making in relation to the management and operation of the Project Company, including but not limited to, the approval of its long-term development policy, annual production plan and financial budget. Furthermore, CIL will be entitled to nominate the chief financial officer, who shall oversee the financial planning and reporting of the Project Company. There is no present requirement for the Company to provide further funding for the operation and development of the Project Company and the Company has no concrete plan to acquire further interest in the Project Company or in other power and heat project, however the Group will continue to explore further investment opportunities with solid prospects, such as the Project Company, including further interest therein, if and when appropriate.

On the above basis, and in light of the market outlook of the cogeneration industry in the PRC, we concur with the Directors that the entering into the Acquisition Agreement represents an opportunity to diversify the Group's investment and create additional value to the Group.

5. *Terms of the Acquisition*

(i) Consideration

Pursuant to the Acquisition Agreement, CIL conditionally agreed to acquire from the Vendor the Sale Shares at the Consideration of HK\$497,400,000, of which HK\$331,168,000 will be satisfied by the issue of 524,000,000 Consideration Shares to Prize Rich at the price of HK\$0.632 per Consideration Share, and HK\$166,232,000 will be satisfied by the issue of the Convertible Bonds to Prize Rich which may be converted into 218,726,315 Shares upon the full exercise of the conversion rights under the Convertible Bonds at the initial conversion price of HK\$0.76 per Conversion Share.

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As set out in the Letter from the Board, the Consideration was arrived at after arm's length negotiations between CIL and the Vendor and was determined after having taken into account, among other things, (i) the historical financial results and the net asset value of the Project Company as at 31 December 2013; (ii) the Debt Transfer Agreement; (iii) the valuations of the properties of Southern Limited; and (iv) the future prospects of the Project Company.

As the three properties, which are located in Hong Kong and not related to the operation of the Project Company, are included in the Acquisition, we therefore consider the hypothetical valuation of 32.636% equity interest in the Project Company ("**Hypothetical Valuation**") could be derived as follows:

	<i>HK\$'million</i>
The Consideration	497.4
Less: Market value of properties of Southern Limited as referred to in Appendix V to this Circular	<u>(32.5)</u>
Hypothetical Valuation	<u><u>464.9</u></u>

For the purpose of assessing of the fairness and reasonableness of the Hypothetical Valuation, the following approaches are adopted:

P/E Ratio

As the Project Company is engaged in cogeneration of thermal power and heat businesses in the PRC, reference to price/earnings multiple (the "**P/E Ratio**") analysis is one of the most widely used and accepted approaches in valuing such revenue-generating entities with recurrent income. For the purpose of assessing the fairness and reasonableness of the Hypothetical Valuation, we have exhaustively identified six companies listed on the Stock Exchange which are principally engaged in the supply of thermal power and heat businesses (the "**Consideration Comparables**"). We consider that they are fair and representative sample for comparison as (i) their businesses are considered closely comparable to the business of the Project Company; and (ii) major revenue was derived from the supply of thermal power and heat for their respective latest financial year. We also selected those companies that are profit-making. In order to have a closer comparison to the Project Company and in view of the

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profit-making status of the Project Company, we consider that the Consideration Comparables represent the exhaustive list of comparable companies. The details of the Consideration Comparables are set out below:

Company (stock code)	Closing price as at the Last Trading Day <i>HK\$</i>	Market capitalisation as at the Last Trading Day ⁴ <i>HK\$ million</i>	Latest published earnings per share <i>HK\$</i>	Latest published net asset value <i>HK\$</i>	P/E Ratio <i>times</i>	P/B Ratio <i>times</i>
China Resources Power (836)	21.15	101,348	2.30	13.56	9.20	1.56
Huaneng Power (902)	8.29	29,474	0.94	5.64	8.80	1.47
Datang International Power (991)	3.12	10,345	0.34	4.21	9.27	0.74
Huadian Power (1071)	4.33	6,196	0.71	3.96	6.14	1.09
China Power (2380)	2.88	18,544	0.45	3.65	6.28	0.79
Beijing Jingneng Clean Energy (579)	3.45	6,779	0.22	2.09	15.36	1.65
Maximum					15.36	1.65
Minimum					6.14	0.74
Mean					9.19	1.22
Median					9.0	1.28
The Project Company		464.90¹	50.88²	359.93³	9.14	1.29

Source: www.hkex.com.hk

Notes:

1. *Being the Hypothetical Valuation*
2. *Being the profit attributable to the owners of 32.636% equity interest of the Project Company for the year ended 31 December 2013*
3. *Being the net asset value of approximately RMB283.8 million (equivalent to approximately HK\$359.93 million) as at 31 December 2013 attributable to the owners of 32.636% equity interest of the Project Company*
4. *Being the closing price of shares multiplied by the number of issued shares of the issuer as at the Last Trading Day*

Upon comparison, we note that the P/E Ratio represented by the Hypothetical Valuation of 9.14 times falls within the range of the Consideration Comparables from 6.14 times to 15.36 times but close to the median and mean of the P/E Ratios of 9.0 times and 9.19 times respectively of the Consideration Comparables, which were calculated with reference to the respective closing price of the shares of the Consideration Comparables as at 5 June 2014, being the Last Trading Day.

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We therefore consider that the P/E Ratio represented by the Hypothetical Valuation is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

P/B Ratio

In addition to the P/E Ratio approach, we also assess the fairness and reasonableness of the Hypothetical Valuation by reference to price-to-book ratio (the “**P/B Ratio**”) approach. Upon comparison, the P/B Ratio represented by the Hypothetical Valuation of 1.29 times falls within the range of the Consideration Comparables between 0.74 time to 1.65 times. Given that the P/B Ratio represented by the Hypothetical Valuation is slightly above the mean and median of the P/B Ratios of 1.22 times and 1.28 times respectively of the Consideration Comparables, we consider that the P/B Ratio represented by the Hypothetical Valuation is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Additional analysis

For reference purpose only, we have also identified eight companies principally engaged in the supply of thermal power and heat businesses which shares are traded and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange (the “**PRC Comparables**”) and performed an analysis of their P/E Ratios and P/B Ratios. We considered the PRC Comparables exhaustive for comparison as (i) their businesses are considered closely comparable to the business of the Project Company; (ii) major revenue was derived from the supply of thermal power and heat for their respective latest financial year; and (iii) they are profit-making companies. We note that the P/E Ratios of the PRC Comparables range from 4.38 times to 96.50 times with mean and median of 32.75 times and 19.86 times respectively. Upon comparison, we note that the P/E Ratio represented by the Hypothetical Valuation of 9.14 times is near the lower end of the range of the P/E Ratios of the PRC Comparables. The P/B Ratio of the PRC Comparables range from 0.9 times to 4.11 times with mean and median of 1.90 and 1.65 times respectively. Upon comparison, the P/B Ratio represented by the Hypothetical Valuation of 1.29 times falls within the range of the PRC Comparables.

Mode of settlement of the Consideration

The Directors are of the view that the proposed settlement method for the Consideration, being through the issue of the Consideration Shares and Convertible Bonds, which does not require cash outflow from the Company, would not strain the Company’s working capital and also allow sufficient and healthy cashflow for financing the Company’s other projects and general working capital use. In addition, the partial settlement of the Consideration through the issue of Convertible Bonds would limit the immediate dilution effect on the existing Shareholder’s interest as a result of the issue of Consideration Shares. Having considered the current internal resources of the Group has been reserved for aforementioned business development and expansion plans, we concur with the Directors that the proposed settlement method for the Consideration is in the best interests of the Company and its Shareholders.

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As set out in the Letter from the Board, the Consideration of HK\$497,400,000 will be settled partly by the allotment and issue of the Consideration Shares at HK\$0.632 each and partly by the issue of the Convertible Bonds with an aggregate principal amount of HK\$166,232,000. The executive Directors are of the view that such arrangement would preserve the cash resources for the Group.

On the above basis, we concur with the Directors that the arrangement to settle the Consideration by way of a combination of the issue of the Consideration Shares and Convertible Bonds is fair and reasonable so far as the Independent Shareholders are concerned since such arrangement could also enable the Group to enhance the capital base of the Company. Meanwhile, in light of the fact that the issue of the Consideration Shares and Convertible Bonds will enhance the capital base of the Company notwithstanding there will be dilution effect on the shareholding of the Independent Shareholders (please also refer to the paragraph headed "Potential dilution effect on the shareholding of the Company" below for more information), we consider that the arrangement of issuing the Consideration Shares and Convertible Bonds to the Vendor is fair and reasonable so far as the Independent Shareholders are concerned.

(a) Consideration Shares

Pursuant to the Acquisition Agreement, the Consideration of HK\$497,400,000 will be settled as to HK\$331,168,000 by way of issuing 524,000,000 Consideration Shares at the issue price of HK\$0.632 per Share to the Vendor upon Completion.

The issue price of HK\$0.632 per Consideration Share represents:-

- (i) a discount of approximately 1.25% to the closing price of HK\$0.64 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 1.61% over the average closing price of approximately HK\$0.622 per Share for the last five trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 0.16% to the average closing price of approximately HK\$0.633 per Share for the last 10 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 1.28% over the average closing price of approximately HK\$0.624 per Share for the last 30 trading days up to and including the Last Trading Day;
- (v) a premium of approximately 5.33% over the average closing price of approximately HK\$0.600 per Share on the Latest Practicable Date; and

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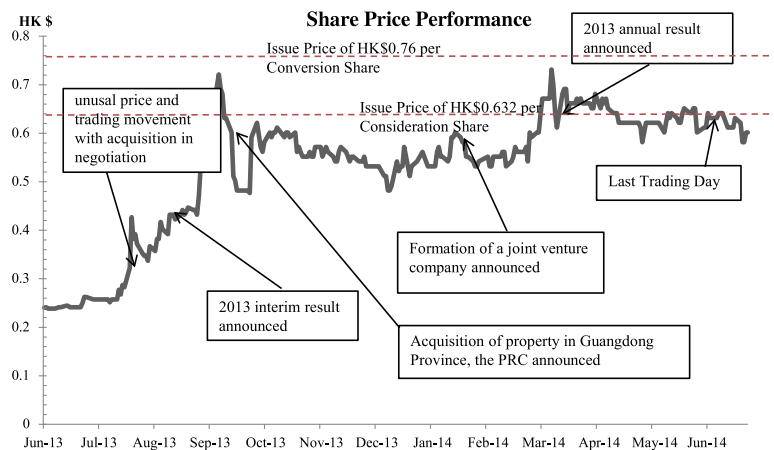
- (vi) a premium of approximately 26.91% over the net asset value per Share of HK\$0.498 as at 31 December 2013 based on the latest published audited financial information of the Group as shown in the Annual Report 2013 and the total number of issued Shares as at the Latest Practicable Date.

The 524,000,000 Consideration Shares represent approximately 44.10% of issued share capital of the Company prior to the issue of the Consideration Shares and approximately 30.60% of the issued share capital of the Company as enlarged by the Consideration Shares.

For the purpose of assessing the fairness and reasonableness of the issue price of Consideration Share, the following approaches are further taken into consideration:

- (i) Share price performance

We plot below the closing price level of the Shares traded on the Stock Exchange from 5 June 2013 (being the 12-month period prior to the Announcement as it is a commonly used tenure for analysis purpose) to 5 June 2014 (being the Last Trading Day) and further up to the Latest Practicable Date (the “Review Period”) as follows:



Source: Hong Kong Exchanges and Clearing Limited

During the Review Period, the lowest closing price was HK\$0.236 per Share recorded on 7 June 2013, 10 June 2013 and 11 June 2013 and the highest closing price was HK\$0.73 per Share recorded on 11 March 2014 and the closing prices of the Shares had been moving upward persistently. The issue price of Consideration Share represents a premium of approximately 1.68 times over the lowest closing price per Share and a discount of approximately 13.42% to the highest closing price per Share during the Review Period and a discount of approximately 1.25% to the closing price of the Shares of HK\$0.64 on the Last Trading Day. The issue price of Consideration Share had been above or equal to

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the closing prices of the Shares on 46 trading days out of the total 262 trading days (representing approximately 17.56% of the total number of trading days) in the entire Review Period.

We note that the Shares have been trading mainly below HK\$0.3 before July 2013. Since July 2013, the closing price of the Shares has been on an upward trend and we note that on 23 July 2013, being the date after the release of announcement of unusual price and trading volume movements in relation to a possible acquisition by the Company, the closing price of shares increased to HK\$0.43. On 27 August 2013, the Company announced the interim result of 2013 and the closing price of the Shares started to pick up an increasing trend and reached a peak of HK\$0.72 on 9 September 2013. The closing prices of the Shares later decreased to HK\$0.48 on 19 September 2013 and then increased to HK\$0.59 on 27 September 2013. Since then, the closing price of the Shares has been fluctuating and towards an increasing trend in February and March 2014 which reached a peak of HK\$0.73 on 11 March 2014, a few days before the announcement of annual result of 2013. The closing prices of the Shares have been fluctuating above HK\$0.60 since then.

On 6 June 2014, being the first trading day after the release of the Announcement, the closing price of the Share remained steady at HK\$0.63 compared to the closing price of HK\$0.64 on the Last Trading Day. The closing price of the Shares has been fluctuating along the issue price of Consideration Share since the publication of the Announcement until the Latest Practicable Date. As at the Latest Practicable Date, the issue price of the Consideration Share represent a premium of 5.33% against the closing price per share of HK\$0.6.

In order to assess the fairness and reasonableness of the issue price of the Consideration Shares, we have conducted a search on all issues of consideration shares by listed issuers of the Stock Exchange from 1 January 2014 up to and including 5 June 2014, being the Last Trading Day in relation to acquisitions by listed companies in Hong Kong involving the issue of consideration shares as part of the consideration (the “**CS Comparables**”). The purpose of the CS Comparables is to compare the issue price of the Consideration Shares with those of the CS Comparables in the recent stock market environment. We note that during 1 January 2014 up to and including 5 June 2014, being the Last Trading Day, companies listed in Hong Kong with business similar to the Company has no consideration shares issuance. We consider the CS Comparables appropriate although the business, operation and prospects of the Company are not the same as the issuers of the CS Comparables and we have not conducted any in-depth investigation into the business and operation of the issuers of the CS Comparables. Based on our search conducted according to the abovementioned criteria, we have identified a list of eighteen CS Comparables and we consider that the CS Comparables is an exhaustive list of those fair and representative comparables for comparison purpose:

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Date	Company (stockcode)	Market capitalisation as at the date of the transaction <i>HK\$'million</i>	Premium/(discount) of issue price of consideration shares over/(to)		Net asset value ¹ <i>HK\$'million</i>
			Closing price prior to announcement %	Respective latest published net asset value %	
10/1/14	Agritrade Resources (1131)	553.89	(25.37)	(79.50)	2,016.10
17/1/14	China Vanguard Group (8156)	2,949.62	(19.7)	5,658	41.14
27/1/14	Shenzhen Investment (604)	14,528.85	21.7	(28.87)	23,768.3
30/1/14	Seamless Green China (8150)	617.89	(0.85)	784.42	51.49
5/2/14	Far East Holdings (36)	193.06	–	(56.98)	448.81
12/2/14	Symphony (1223)	915.15	10.34	(57.1)	1,464.96
24/2/14	Beijing Development (154)	2,898.31	(36.25)	48.15	924.74
7/3/14	Sinoref Holdings (1020)	953.63	(8.82)	9.35	795.12
28/3/14	Sino Resources Group (223)	582.03	–	N/A	(192.1)
28/3/14	Asia Cassava Resources (841)	355.34	5.2	(44.37)	597.57
31/3/14	Seamless Green China (8150)	650.40	2.5	2,148.23	26.97
7/4/14	Jun Yang Solar Power (397)	889.44	–	(15.71)	1055.23
15/4/14	Sinopoly Battery (729)	9,167.52	(7.41)	1,090.78	574.23
17/4/14	Kiu Hung Energy (381)	219.26	(21.05)	42.86	200.80
21/4/14	Changhong Jiahua (8016)	703.5	(33.3)	(52.38)	983.27
30/4/14	China Household (692) ²	622.42	162.0	(25.38)	2,187.27
2/5/14	China Investment Development (204)	1,923.11	(0.41)	3,400	47.57
30/5/14	First China Financial Network (8123)	1,159.33	11.11	1,026	118.76
	Maximum		162.0	5,658	
	Minimum		(36.25)	(79.50)	
	Mean		3.98	814.60	
	Median		(0.85)	9.35	
	The Company	760.53	(1.25)	26.91	592.06

Notes:

1. Based on the latest financial data as published in the annual report or interim report as at the Latest Practicable Date
2. China Household issued both consideration shares and convertible bonds for its acquisition

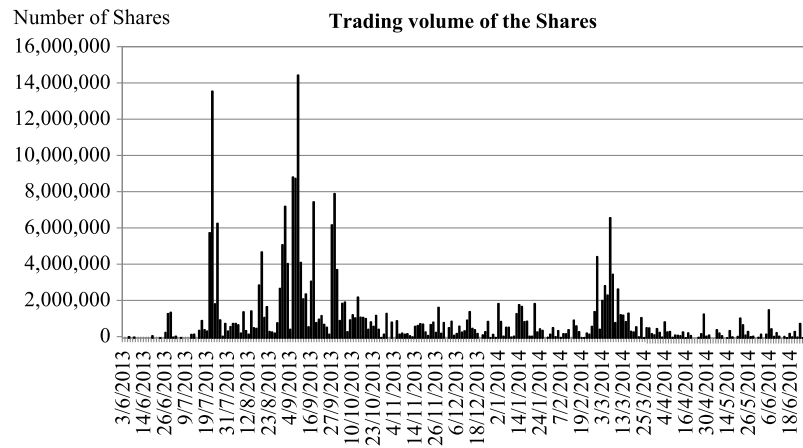
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Based on the above, the premium/(discount) of issue prices of consideration shares of CS Comparables as compared to their respective closing price prior to the Announcement range from a discount of approximately 36.25% to a premium of approximately 162.0% with median at a discount of approximately 0.85% and mean at a premium of approximately 3.98%. The slight discount of the issue price of the Consideration Shares of 1.25% to the closing price of the Shares on the Last Trading Day therefore lies within the range of and comparable to the median of the abovementioned range.

Having considered the issue price of the Consideration Shares (i) represents a slight discount of 1.25% to the closing price of the Shares on the Last Trading Day; (ii) represents a premium of 26.91% over the net asset value per Share of HK\$0.498 as at 31 December 2013; (iii) lies above the closing price of the Share for majority of the Review Period and (iv) lies within the range of the CS Comparables, we are of the view that the issue price of the Consideration Shares is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(ii) Liquidity

The following chart shows the daily trading volume of the Shares during the Review Period:



Source: Infocast

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Month	Highest daily turnover (number of Shares)	Average daily turnover (number of Shares) <i>(Note 1)</i>	Number of trading days with no turnover (days)	Percentage of average daily turnover to total number of Shares in issue (%) <i>(Note 2)</i>	Percentage of average daily turnover to total number of Shares held by Independent Shareholders (%) <i>(Note 3)</i>
2013					
Jun	1,411,000	172,722.79	12	0.015	0.021
Jul	13,551,000	1,477,888.91	5	0.124	0.176
Aug	5,118,000	1,328,358.67	0	0.112	0.158
Sep	14,427,434	4,124,460.30	0	0.347	0.492
Oct	3,752,290	1,102,430.29	1	0.093	0.131
Nov	1,675,000	519,253.05	1	0.044	0.062
Dec	1,451,000	425,462.85	2	0.036	0.051
2014					
Jan	1,892,000	688,568.19	1	0.058	0.082
Feb	4,465,000	603,475.53	1	0.051	0.072
Mar	6,598,100	1,412,368.19	0	0.119	0.168
Apr	1,309,466	265,655.90	2	0.022	0.032
May	1,090,000	201,817.25	5	0.017	0.024
Jun (up to and including the Latest Practicable Date)	1,550,000	254,180.58	2	0.021	0.030

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
2. Based on the total number of issued Shares at the end of the respective month/period.
3. Based on the total number of Shares held by the Independent Shareholders as at the Latest Practicable Date.

During the Review Period, no trading of the Shares was recorded on 32 trading days on the Stock Exchange.

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As illustrated in the table above, the average daily trading volume in the Review Period was within the range of 1,090,000 Shares (approximately 0.017% of total number of Shares in issue) and 14,427,434 Shares (approximately 0.347% of total number of Shares in issue). We noted from the above table that save for the month of September 2013, trading in the Shares had been rather thin during the Review Period, with the average daily trading volume being equal to or below 0.2% of the total number of issued Shares held by the Independent Shareholders in the entire Review Period. Besides the acquisition of property in Guangdong Province, the PRC which was announced on 16 September 2013, we are not aware of the reason for the higher trading volume of the Shares in September 2013. Based on the above, we consider that the trading volume of the Shares during most of the Review Period was generally thin. The low liquidity of the Shares may imply that lack of interest from potential investors to invest in the Share which the Company was not confident in securing independent third party participants, if fundraising activity is required for the settlement of the Consideration.

(b) Convertible Bonds

The Convertible Bonds with a principal amount of HK\$168,232,000 has a tenure of 5 years bearing an interest of 2% per annum which is convertible to 218,726,315 Conversion Shares at the conversion price of HK\$0.76 per Conversion Share (subject to adjustment).

The principal amount of the Convertible Bonds are convertible in whole or in part into Conversion Shares at the Conversion Price by the bondholder at any time during the conversion period which commences on the date falling on the third anniversary of the issue date of the Convertible Bonds and expiring on the maturity date. The Convertible Bonds may be assigned or transferred subject to the conditions set out in the Letter from the Board.

The 218,726,315 Conversion Shares (subject to adjustment) to be allotted and issued upon full conversion represent approximately (i) 18.41% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) 15.54% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (but not the Consideration Shares) upon full conversion of the Convertible Bonds at the Conversion Price (assuming no adjustment is made).

The conversion price of HK\$0.76 per Conversion Share represents:-

- (i) a premium of approximately 18.75% over the closing price of HK\$0.64 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 22.19% over the average closing price of approximately HK\$0.622 per Share for the last five trading days up to and including the Last Trading Day;

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- (iii) a premium of approximately 20.06% over the average closing price of approximately HK\$0.633 per Share for the last 10 trading days up to and including the Last Trading Day;
 - (iv) a premium of approximately 21.79% over the average closing price of approximately HK0.624 per Share for the last 30 trading days up to and including the Last Trading Day;
 - (v) a premium of approximately 26.67% over the average closing price of approximately HK\$0.600 per Share on the Latest Practicable Date; and
 - (vi) a premium of approximately 52.61% over the net asset value per Share of HK0.498 as at 31 December 2013 based on the latest published audited financial information of the Group as shown in the Annual Report 2013 and the total number of issued Shares as at the Latest Practicable Date.
- (i) Comparison with other convertible bonds/notes

In order to assess the fairness and reasonableness of the principal terms of the Convertible Bonds, we have conducted a search on all issues of convertible bonds/notes in relation to (i) acquisitions by listed companies in Hong Kong involving the issue of convertible bonds as part of the consideration from 1 January 2014 up to and including 5 June 2014, being the Last Trading Day (the “**CB Comparables**”). The purpose of the CB Comparables is to provide reference on the recent market practice in determining the interest rate of the convertible bonds/notes. We note that during 1 January 2014 up to and including 5 June 2014, being the Last Trading Day, companies listed in Hong Kong with business similar to the Company has no convertible bonds/notes issuance. We consider the CB Comparables appropriate although business, operation and prospects of the Company are not the same as the issuers of the CB Comparables. We also consider they are comparable as the principal terms of the convertible securities issuance (i.e. principal amount, term to maturity, interest/coupon rate and conversion price) should be considered in whole rather than in isolation. Based on our search conducted according to the above criteria, we consider that the list of nine CB Comparables is an exhaustive list of fair and representative comparables for comparison purpose. Key findings on the principal terms of the CB Comparables are summarised in table below:

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Date	Company (stock code)	Annual interest rate %	Maturity year	Premium/ (discount) over/(to) share price as at the last trading day %	Premium/ (discount) over/(to) latest published net asset value %
24/01/14	China Environment Energy (986)	8	1	(3.27)	N/A
30/1/14	Sunway International (58)	0	3.5	1.69	(33.18)
18/3/14	United Gene High-Tech Group (399)	3.5	7	73.61	273.13
2/4/14	China Household (692)*	3	3	–	13.83
4/4/14	Sheen Tai Holdings Group (1335)	3	3	(14.09)	45.71
11/4/14	Infinity Chemical (640)	0	2	(5.88)	67.88
5/5/14	China Printer Power Group (6828)	0	3	(12.92)	154.43
25/5/14	CMMB Vision (471)	0	6	15.4	(39.83)
26/5/14	Asian Capital Resources (8025)	0	2	–	46,680
	Minimum	0	1	(14.09)	(39.83)
	Maximum	8	7	73.61	46,680
	Mean	1.94	3.39	7.79	5,895
	Median	0	3.0	(3.27)	56.79
	The Convertible Bonds	2	5	18.75	52.61

Note: China Household issued both consideration shares and convertible bonds for its acquisition

Maturity and interest rate

We note that the maturity term of the Convertible Bonds of 5 years is above the mean and the median of those of the CB Comparables. We consider a longer maturity term could minimise the financial burden of the Group in the upcoming 5 years' period. We also note that the Convertible Bonds carry 2% interest whilst the CB Comparables carry interest as high as 8.0% per annum. Hence, we consider the issue of Convertible Bonds allows the Group to obtain funding with a minimal finance cost.

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Conversion price

As illustrated from the table above, we noted that (i) the premium of the conversion price of the Convertible Bonds over the closing price of the Shares on the Last Trading Day is above the mean and median of the CB Comparables; and (ii) the premium of the conversion price of the Convertible Bonds over the net asset value per share is close to the mean of the CB Comparables. We note one of the CB Comparables with an enormous premium to the latest published net asset value per share of 46,860% which have distorted the comparison. After exclusion of this outlier and shortlisted the CB Comparables, the premium of the conversion price of the Convertible Bonds over the net asset value per share is above the median, at a premium of approximately 45.71%, and below the mean, at a premium of approximately 68.85%. Having considered the above, we consider the conversion price of the Convertible Bonds is fair and reasonable.

Redemption right

Subject to the events of default of the Convertible Bonds set out in the Letter from the Board, the Convertible Bonds could be redeemed by the Company on the maturity date at the principal amount outstanding together with all accrued and unpaid interest. We have reviewed the principal terms of the CB Comparables and are of the view that majority of which has the right to redeem the convertible bonds at any time prior to the maturity date. Therefore we consider that these features, as arrived at after arm's length negotiations, are in the interest of the Company and the Independent Shareholders as a whole and therefore are fair and reasonable.

Based on the above, we concur with the view of the Directors that the issue and the terms of Convertible Bonds are in the interest of the Company and the Independent Shareholders.

6. *Financial effects of the Acquisition*

(i) Earnings

The financial results of Southern Limited will be consolidated into the accounts of the Group after Completion. As set out in the Appendix IIA to this Circular, the profit of Southern Limited for the year ended 31 December 2013 was approximately HK\$51.3 million. As set out in the Appendix I to this Circular, the loss attributable to owners of the Company was approximately HK\$1.4 million for the year ended 31 December 2013. Assuming the Acquisition were completed on 31 December 2013 and the expenses in relation to the issue of the Consideration Shares and Convertible Bonds were minimal, the combined loss of the Group would be eliminated and the Company would make a profit of approximately HK\$49.9 million for the year ended 31 December 2013.

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(ii) Cashflow

The Acquisition will be satisfied by the Consideration Shares and Convertible Bonds, hence there will be no impact on the cashflow of the Group from this aspect. The pro forma combined cash and bank balances of the Enlarged Group will be slightly increased after consolidated with that of Southern Limited and deducted with expenses related to the Acquisition as set out in the Appendix III to this Circular.

(iii) Net asset value

As set out in the Appendix III to this Circular, the consolidated net assets attributable to equity holders of the Company and Southern Limited were approximately HK\$592.1 million with a net asset value per Share of approximately HK\$0.498 per Share and HK\$271.1 million respectively as at 31 December 2013. Upon Completion, the Group will consolidate the assets and liabilities of Southern Limited into the accounts of the Group and the unaudited pro forma combined net assets attributable to equity holders of the Company would increase from approximately HK\$592.1 million to approximately HK\$991.2 million with a net asset value per Share of approximately HK\$0.579 per Share.

(iv) Gearing

Based on Appendix III to this Circular, total liabilities of the Group were approximately HK\$123.4 million as at 31 December 2013 whilst the consolidated shareholders' equity of the Group as at 31 December 2013 were approximately HK\$592.1 million. As at 31 December 2013, the gearing ratio of the Group (measured by total liabilities over shareholders' equity) was approximately 20.8%.

According to Appendix III to this Circular, the total pro forma combined liabilities of the Enlarged Group will be increased by approximately HK\$93.9 million (being the Convertible Bonds) to approximately HK\$217.4 million and the pro forma shareholders' equity of the Enlarged Group will increase to approximately HK\$991.2 million. Hence, the pro forma gearing ratio will slightly increase to approximately 21.9% as referred to in Appendix III to this Circular.

Based on the above and assuming the Acquisition was completed in the year ended 31 December 2013, the Acquisition would have a turnaround effect on the Group's earnings with positive impact on net asset value. Having considered the aforementioned overall benefits which the Acquisition would likely bring to the Group, we consider the slight increase in gearing ratio of the Group is justifiable.

7. *Potential dilution effect on the shareholding of the Company*

Based on the terms of Acquisition Agreement, an aggregate of 742,726,315 Shares will be issued upon Completion and full conversion of the Convertible Bonds, representing (i) approximately 62.50% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 43.38% of the issued share capital of the Company as enlarged by the Consideration

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Shares but before the conversion of the Convertible Bonds by Prize Rich; and (iii) approximately 38.46% of issued share capital of the Company as enlarged by the Consideration Shares and the full conversion of the Convertible Bonds by Prize Rich.

Based on the number of Shares of 565,636,698 Shares held by the Independent Shareholders as at the Latest Practicable Date and the issued share capital of the Company of 1,712,329,142 Shares as enlarged by the Consideration Shares, the shareholding of the public Shareholders in the Company will be diluted from approximately 47.59% to 33.03% upon Completion. The shareholdings of the public Shareholders in the Company will be further diluted to approximately 29.29% of the issued share capital of the Company as enlarged by the Consideration Shares and the full conversion of the Convertible Bonds by Prize Rich.

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) after the allotment and issue of the Consideration Shares and before the exercise conversion rights attaching to the Convertible Bonds; and (iii) after the allotment and issue of the Consideration Shares and assuming the conversion rights attaching to the Convertible Bonds are fully exercised:

Shareholders	As at the Latest Practicable Date		After the allotment and issue of the Consideration Shares only		After the allotment and issue of the Consideration Shares and assuming the conversion rights attaching to the Convertible Bonds are fully exercised	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Prize Rich ¹	349,217,178	29.39	873,217,178	51.00	1,091,943,493	56.55
Mighty Management Limited ²	151,610,779	12.76	151,610,779	8.85	151,610,779	7.85
Nam Keng Van Investment Company Limited ³	121,864,487	10.26	121,864,487	7.12	121,864,487	6.31
Public	<u>565,636,698</u>	<u>47.59</u>	<u>565,636,698</u>	<u>33.03</u>	<u>565,636,698</u>	<u>29.29</u>
Total	<u>1,188,329,142</u>	<u>100.00</u>	<u>1,712,329,142</u>	<u>100.00</u>	<u>1,931,055,457</u>	<u>100.00</u>

Notes:

1. Prize Rich is wholly-owned by Guangdong Nanhai Holding, which is wholly-owned by the Vendor.
2. According to the Letter from the Board, Mighty Management Limited is wholly-owned by Mr. Leung Siu Fai, an ex-executive director and ex-chairman of the Company who resigned on 26 February 2009.
3. According to the Letter from the Board, Nam Keng Van Investment Company Limited is wholly-owned by Mr. Cui Guo Jian and Mr. Pu Jian Qing in equal shares.

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Taking into account the above factors, in particular,

- (i) the issue price of the Consideration Shares represents a slight discount to the closing price of the Shares on the Last Trading Day and a premium of 26.91% over the net asset value per Share;
- (ii) the issue of Consideration Shares will enlarge and strengthen capital base of the Company based on Appendix I and Appendix IIA to this Circular as well as the net asset position of the Group based on Appendix III to this Circular;
- (iii) conversion price of the Convertible Bonds represents a premium of 18.75% and 52.61% over the closing price of the Shares on the Last Trading Day and the net asset value per Share respectively; and
- (iv) the settlement of the consideration by way of issue of the Consideration Shares and the Convertible Bonds can serve to preserve the cash resource of the Group,

we are of the opinion that of the dilution to the shareholding interests of the Independent Shareholders in the event that the Consideration Shares and Convertibles Notes are issued is acceptable so far as the Independent Shareholder are concerned.

THE WHITEWASH WAIVER

(a) Background

As at the Latest Practicable Date, Prize Rich was a substantial Shareholder holding 349,217,178 Shares, representing approximately 29.39% of the issued share capital of the Company, and upon Completion, will hold 873,217,178 Shares, representing approximately 51.00% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. Assuming full conversion of the Convertible Bonds at the initial conversion price, Prize Rich would hold 1,091,943,493 Shares, representing approximately 56.55% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and Conversion Shares. In the absence of the Whitewash Waiver, Prize Rich and the parties acting in concert with it (if any) would be obligated to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by it and parties acting in concert with it (if any) pursuant to the Takeovers Code as a result of the issue of Consideration Shares.

An application to the Executive for the Whitewash Waiver has been made by Prize Rich pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that he will grant the Whitewash Waiver and the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. Prize Rich, which holds 349,217,178 Shares representing approximately 29.39% of the issued share capital of the Company, whilst Mr. Chen, Mr. Wang, Mr. Huang, the Vendor and their associates do not hold any Shares as at the Latest Practicable Date. Prize Rich, Mr. Chen, Mr. Wang, Mr. Huang and their concert parties (if any), and any Shareholder who is involved in the Acquisition and/or the Whitewash Waiver shall abstain from voting

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at the SGM in respect of the resolution(s) approving the Acquisition Agreement and the Whitewash Waiver. None of the Directors have a material interest in the Acquisition and the Whitewash Waiver and are not required and have not abstained from voting on the board resolutions in respect thereof.

As Prize Rich will be holding more than 50% of the issued share capital of the Company upon Completion, Prize Rich may subsequently increase its shareholding in the Company without incurring any further obligation under Rule 26 of the Takeover Code to make a general offer.

(b) The Whitewash Waiver as a condition of the Acquisition Agreement

It is a condition precedent to the Completion that the Whitewash Waiver is granted by the Executive and approved by Independent Shareholders. If the Whitewash Waiver is not granted by the Executive or not approved by Independent Shareholders, the Acquisition Agreement will lapse and the Acquisition will not proceed.

(c) Prize Rich and parties acting in concert with it shall remain as the largest group of Shareholders

As at the Latest Practicable Date, Prize Rich was a substantial Shareholder of the Company. Independent Shareholders should note that Prize Rich and the parties acting in concert with it (if any) shall remain as the largest group of Shareholders upon Completion.

The granting and approval of the Whitewash Waiver will enable the Group and all the Shareholders, including the Independent Shareholders, to take the opportunity to enjoy the potential benefits upon Completion which include, among other things, (i) the opportunity for the Group to participate in cogeneration of thermal power and heat businesses in the PRC; (ii) the earnings of the Group will be enhanced based on Appendix I and Appendix IIA to this Circular; and (iii) the increase in net assets and the enhancement of the equity base of the Group base on Appendix III to this Circular. Accordingly, we consider that seeking of the grant of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned as it is a condition precedent to the Acquisition.

RECOMMENDATION

Having considered the above principal factors, in particular,

For the Acquisition Agreement,

- the Acquisition is in line with the Group's development and avails the Group to be one of the few listed companies in Hong Kong to participate in the PRC cogeneration of thermal power and heat industry;
- the Directors believe there is a sustainable growth in the cogeneration industry and with encouragement from the Chinese government on the continuous development of cogeneration of thermal power and heat industry;

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- the loss from continuing operations position of the Company since the year ended 31 December 2012, whilst Southern Limited and Project Company were profit-making for each of the three years ended 31 December 2013;
- the P/E Ratio and P/B Ratio as represented by the Hypothetical Valuation are fair and reasonable and the Consideration is justifiable given that it equals to the sum of independent market valuation of the Properties and the Hypothetical Valuation;
- the issue price of the Consideration Shares represent a slight discount to the closing price of the Shares on the Last Trading Day and premium over the latest published audited net asset value per Share of the Group;
- the conversion price represent a premium over the closing price of the Shares during the Review Period and up to the Last Trading Day and lie above the latest published audited net asset value per Share of the Group; and
- the loss position of the Company for the year ended 31 December 2013 could be turnaround whilst the pro forma unaudited net asset value per Share of the Enlarged Group could be improved as per Appendix III to this Circular,

we consider although the Acquisition is not in the ordinary and usual course of business, it is incidental to the Group's development of its ordinary and usual course of business. The terms of the Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

For the Whitewash Waiver,

- the loss from continuing operations position of the Company since the year ended 31 December 2012;
- lack of alternative fund raising method available to the Company;
- no material change in existing business and management of the Group given that the Acquisition comprises of three properties of Southern Limited with 32.636% equity interest of the Project Company;
- the Consideration is justifiable for reasons as discussed above;
- the Acquisition will have an overall positive financial effect on the Group's earnings and financial position and is in the interests of the Company and the Independent Shareholders as a whole; and
- the Whitewash Waiver is one of the conditions precedent for Completion, failure of which the Acquisition will not proceed,

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we consider that seeking of the grant of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned and the approval of the Whitewash Waiver by the Independent Shareholders is in the interests of the Company and the Independent Shareholders.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to, and we recommend the Independent Shareholders to, vote in favour of the ordinary resolutions to approve the Acquisition Agreement and the Whitewash Waiver at the EGM.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung
Managing Director

Hickman Wong
Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of merge and acquisition, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Hickman Wong has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Wong has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of merge and acquisition, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. FINANCIAL SUMMARY

The following is a summary of the audited financial results of the Group for each of the three financial years ended 31 December 2011, 2012 and 2013, as extracted from the published financial statements of the Group for the relevant years.

No qualified opinion was being given in the auditor's report issued by HLM CPA Limited, Certified Public Accountants, Hong Kong in respect of the consolidated financial statements of the Group for the three financial years ended 31 December 2011, 2012 and 2013.

(i) Consolidated statement of profit or loss and other comprehensive income

	For the year ended 31 December		
	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Continuing operations			
Turnover	29,616	35,738	36,560
Cost of sales and services	<u>(15,421)</u>	<u>(15,026)</u>	<u>(17,123)</u>
Gross profit	14,195	20,712	19,437
Other operating income	22,827	6,686	12,835
Selling and distribution costs	(982)	(690)	(572)
Administrative expenses	(31,291)	(28,690)	(27,102)
(Decrease)/increase in fair value of investment properties	(538)	159	-
Impairment loss on properties held for sale	<u>(1,962)</u>	<u>(3,889)</u>	<u>-</u>
Profit/(loss) before taxation	2,249	(5,712)	4,598
Income tax expenses	<u>(2,260)</u>	<u>(624)</u>	<u>(2,748)</u>
(Loss)/profit for the year from continuing operations	<u>(11)</u>	<u>(6,336)</u>	<u>1,850</u>
Discontinued operations			
(Loss)/profit from discontinued operations and compensation	(5,360)	69,918	(62,806)
Gain on writing back of unclaimed liabilities and accounts payable legally time barred and lapsed, net of income tax	<u>3,952</u>	<u>41,947</u>	<u>-</u>
Net (loss)/profit for the year from discontinued operations	<u>(1,408)</u>	<u>111,865</u>	<u>(62,806)</u>
(Loss)/profit for the year and attributable to owners of the Company	<u>(1,419)</u>	<u>105,529</u>	<u>(60,956)</u>
Other comprehensive income, net of income tax			
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of hotel properties	597	2,973	1,886
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations	<u>5,100</u>	<u>2,253</u>	<u>555</u>
Other comprehensive income for the year, net of income tax	<u>5,697</u>	<u>5,226</u>	<u>2,441</u>
Total comprehensive income/(expense) for the year and attributable to owners of the Company	<u><u>4,278</u></u>	<u><u>110,755</u></u>	<u><u>(58,515)</u></u>

	For the year ended 31 December		
	2013	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/earnings per share			
From continuing and discontinued operations			
Basic	<u>(HK0.12 cents)</u>	<u>HK8.88 cents</u>	<u>(HK5.13 cents)</u>
Diluted	<u>(HK0.12 cents)</u>	<u>HK8.88 cents</u>	<u>(HK5.13 cents)</u>
From continuing operations			
Basic	<u>HK0 cent</u>	<u>(HK0.53 cents)</u>	<u>HK0.16 cents</u>
Diluted	<u>HK0 cent</u>	<u>(HK0.53 cents)</u>	<u>HK0.16 cents</u>

No dividend had been paid or declared by the Group and no item which are exceptional because of size, nature or incidence was recorded for each of the three financial years ended 31 December 2011, 2012 and 2013.

(ii) Consolidated statement of financial position

	As at 31 December		
	2013	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Investment properties	11,422	11,960	11,801
Property, plant and equipment	128,349	111,620	111,669
	<u>139,771</u>	<u>123,580</u>	<u>123,470</u>
Current assets			
Properties held for sale	57,578	59,540	63,429
Inventories	1,590	1,592	1,927
Trade and other receivables	137,584	153,614	3,997
Financial assets at fair value through profit or loss	1	1	1
Bank balances and cash	378,888	375,422	62,708
	<u>575,641</u>	<u>590,169</u>	<u>132,062</u>
Assets classified as held for sale	–	13,617	381,207
	<u>575,641</u>	<u>603,786</u>	<u>513,269</u>
Current liabilities			
Trade and other payables	104,683	116,653	92,710
Tax payable	18,671	22,933	2,087
	<u>123,354</u>	<u>139,586</u>	<u>94,797</u>
Liabilities directly associated with assets classified as held for sale	–	–	64,917
	<u>123,354</u>	<u>139,586</u>	<u>159,714</u>
Net current assets	<u>452,287</u>	<u>464,200</u>	<u>353,555</u>
Total assets less current liabilities	<u><u>592,058</u></u>	<u><u>587,780</u></u>	<u><u>477,025</u></u>
Capital and reserves			
Share capital	118,833	118,833	118,833
Reserves	473,225	468,947	358,192
Equity attributable to owners of the Company	<u><u>592,058</u></u>	<u><u>587,780</u></u>	<u><u>477,025</u></u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the full text of the audited financial statements of the Group for the year ended 31 December 2013 as extracted from the annual report of the Company for the year ended 31 December 2013:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	NOTES	2013 HK\$'000	2012 HK\$'000
Continuing operations			
Turnover	6	29,616	35,738
Cost of sales and services		<u>(15,421)</u>	<u>(15,026)</u>
Gross profit		14,195	20,712
Other operating income	8	22,827	6,686
Selling and distribution costs		(982)	(690)
Administrative expenses		(31,291)	(28,690)
(Decrease)/increase in fair value of investment properties		(538)	159
Impairment loss on properties held for sale		<u>(1,962)</u>	<u>(3,889)</u>
Profit/(loss) before taxation		2,249	(5,712)
Income tax expenses	9	<u>(2,260)</u>	<u>(624)</u>
Loss for the year from continuing operations	12	<u>(11)</u>	<u>(6,336)</u>
Discontinued operations			
(Loss)/profit from discontinued operations and compensation		(5,360)	69,918
Gain on writing back of unclaimed liabilities and accounts payable legally time barred and lapsed, net of income tax		<u>3,952</u>	<u>41,947</u>
Net (loss)/profit for the year from discontinued operations	10	<u>(1,408)</u>	<u>111,865</u>
(Loss)/profit for the year and attributable to owners of the Company		<u>(1,419)</u>	<u>105,529</u>
Other comprehensive income, net of income tax			
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of hotel properties		597	2,973
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		<u>5,100</u>	<u>2,253</u>
Other comprehensive income for the year, net of income tax		<u>5,697</u>	<u>5,226</u>
Total comprehensive income for the year and attributable to owners of the Company		<u>4,278</u>	<u>110,755</u>
(Loss)/earnings per share			
From continuing and discontinued operations			
Basic		<u>(HK0.12 cents)</u>	<u>HK 8.88 cents</u>
Diluted		<u>(HK0.12 cents)</u>	<u>HK 8.88 cents</u>
From continuing operations			
Basic		<u>HK0 cent</u>	<u>(HK 0.53 cents)</u>
Diluted		<u>HK0 cent</u>	<u>(HK 0.53 cents)</u>

Consolidated Statement of Financial Position*As at 31 December 2013*

	<i>NOTES</i>	2013 HK\$'000	2012 HK\$'000
Non-current assets			
Investment properties	<i>17</i>	11,422	11,960
Property, plant and equipment	<i>18</i>	128,349	111,620
		<u>139,771</u>	<u>123,580</u>
Current assets			
Properties held for sale	<i>21</i>	57,578	59,540
Inventories	<i>22</i>	1,590	1,592
Trade and other receivables	<i>23</i>	137,584	153,614
Financial assets at fair value through profit or loss	<i>24</i>	1	1
Bank balances and cash	<i>25</i>	378,888	375,422
		<u>575,641</u>	<u>590,169</u>
Assets classified as held for sale	<i>11</i>	-	13,617
		<u>575,641</u>	<u>603,786</u>
Current liabilities			
Trade and other payables	<i>26</i>	104,683	116,653
Tax payable		18,671	22,933
		<u>123,354</u>	<u>139,586</u>
Net current assets		<u>452,287</u>	<u>464,200</u>
Total assets less current liabilities		<u>592,058</u>	<u>587,780</u>
Capital and reserves			
Share capital	<i>27</i>	118,833	118,833
Reserves		473,225	468,947
Equity attributable to owners of the Company		<u>592,058</u>	<u>587,780</u>

Statement of Financial Position*As at 31 December 2013*

	<i>NOTES</i>	2013 HK\$'000	2012 HK\$'000
Non-current asset			
Investment in subsidiaries	20	<u>23,607</u>	<u>23,607</u>
Current assets			
Amounts due from subsidiaries		216,542	342,352
Deposits and other receivables		581	731
Bank balances and cash	25	<u>122,602</u>	<u>160</u>
		<u>339,725</u>	<u>343,243</u>
Current liability			
Other payables		<u>79,185</u>	<u>79,177</u>
Net current assets			
		<u>260,540</u>	<u>264,066</u>
Total assets less current liability		<u>284,147</u>	<u>287,673</u>
Capital and reserves			
Share capital	27	118,833	118,833
Reserves		<u>165,314</u>	<u>168,840</u>
Equity attributable to owners of the Company			
		<u>284,147</u>	<u>287,673</u>

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the Company						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve (note) HK\$'000	Hotel properties revaluation reserve* HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	
THE GROUP							
At 1 January 2012	118,833	484,159	31,753	38,555	(54,348)	(141,927)	477,025
Profit for the year	-	-	-	-	-	105,529	105,529
Other comprehensive income for the year							
- Surplus on revaluation of hotel properties	-	-	-	2,973	-	-	2,973
- Release of revaluation reserve of hotel properties	-	-	-	(1,224)	-	1,224	-
- Exchange differences arising on translation of foreign operations	-	-	-	-	2,253	-	2,253
Other comprehensive income for the year	-	-	-	1,749	2,253	1,224	5,226
Total comprehensive income for the year	-	-	-	1,749	2,253	106,753	110,755
At 31 December 2012	118,833	484,159	31,753	40,304	(52,095)	(35,174)	587,780
At 31 December 2012 and 1 January 2013	118,833	484,159	31,753	40,304	(52,095)	(35,174)	587,780
Loss for the year	-	-	-	-	-	(1,419)	(1,419)
Other comprehensive income for the year							
- Surplus on revaluation of hotel properties	-	-	-	597	-	-	597
- Release of revaluation reserve of hotel properties	-	-	-	(1,321)	-	1,321	-
- Exchange differences arising on translation of foreign operations	-	-	-	-	5,100	-	5,100
Other comprehensive income for the year	-	-	-	(724)	5,100	1,321	5,697
Total comprehensive income for the year	-	-	-	(724)	5,100	(98)	4,278
At 31 December 2013	118,833	484,159	31,753	39,580	(46,995)	(35,272)	592,058

* Items that will not be reclassified to profit or loss

Note: Statutory reserve represents general reserve and enterprise expansion fund which are set up by subsidiaries established and operated in the People's Republic of China ("PRC") by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the board of Directors of the PRC subsidiaries, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for each year, until when the accumulated balance reaches 50% of the total registered capital of the subsidiary. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.

Consolidated Statement of Changes in Equity (Continued)*For the year ended 31 December 2013*

	Attributable to owners of the Company			
	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 1 January 2012	118,833	484,159	(312,389)	290,603
Loss for the year	<u>—</u>	<u>—</u>	<u>(2,930)</u>	<u>(2,930)</u>
At 31 December 2012 and 1 January 2013	118,833	484,159	(315,319)	287,673
Loss for the year	<u>—</u>	<u>—</u>	<u>(3,526)</u>	<u>(3,526)</u>
At 31 December 2013	<u>118,833</u>	<u>484,159</u>	<u>(318,845)</u>	<u>284,147</u>

Consolidated Statement of Cash Flows*For the year ended 31 December 2013*

	2013 HK\$'000	2012 HK\$'000
Operating activities		
(Loss)/profit for the year	(1,419)	105,529
Adjustments for:		
Interest income	(12,472)	(1,161)
Income tax expenses	9,224	20,919
Decrease/(increase) in fair value of investment properties	538	(159)
Impairment loss on properties held for sale	1,962	3,889
Impairment loss on property, plant and equipment	–	11,426
Impairment loss on inventories	–	3,765
Gain on written back of unclaimed liabilities and accounts payable legally time barred and lapsed	(3,952)	(41,947)
Provision for loss in litigation written back	(288)	(3,599)
Net exchange gain	(8,948)	(2,538)
Depreciation of property, plant & equipment	8,593	7,610
Net (gain)/loss on disposal of fibreboard business assets	(4,364)	1,204
Net compensation from cessation of fibreboard business	–	(122,346)
Share of impairment loss of an associate	–	2,698
Loss on disposal of property, plant and equipment	28	16
	<u>(11,098)</u>	<u>(14,694)</u>
Operating cash flow before movements in working capital	(11,098)	(14,694)
Decrease in inventories	2,673	31,150
(Increase)/decrease in trade and other receivables	(3,493)	17,539
Increase in trade and other payables	(7,926)	(11,908)
	<u>(19,844)</u>	<u>22,087</u>
Cash (used in)/generated from operations	(19,844)	22,087
Tax paid	(14,303)	(2,046)
	<u>(34,147)</u>	<u>20,041</u>
Net cash (used in)/generated from operating activities	(34,147)	20,041

Consolidated Statement of Cash Flows (Continued)*For the year ended 31 December 2013*

	2013 HK\$'000	2012 HK\$'000
Investing activities		
Purchase of property, plant and equipment	(24,258)	(1,709)
Deposit paid for purchase of property	(130,657)	–
Compensation income received	149,315	220,700
Placement of time deposit with maturity over three months	(128,041)	–
Net proceeds from disposal of fibreboard business assets	11,261	10,465
Interest received	16,215	1,161
Net proceeds from disposal of property, plant and equipment	–	18
	<u>(106,165)</u>	<u>230,635</u>
Net cash (used in)/generated from investing activities		
Net (decrease)/increase in cash and cash equivalents	(140,312)	250,676
Cash and cash equivalents at 1 January	375,422	117,009
Effect of foreign exchange rates changes	15,737	7,737
	<u>250,847</u>	<u>375,422</u>
Cash and cash equivalents at 31 December		
Analysis of the balances of cash and cash equivalents, being:		
Bank balances and cash	378,888	375,422
Less: time deposit with maturity over three months	(128,041)	–
	<u>250,847</u>	<u>375,422</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section of the annual report.

During the year, the principal activities of the Group are property development and investment, hotel operation and investment holding. The principal activities of the Company and its subsidiaries (the “Group”) are described in note 34.

In prior years, the Group was also engaged in manufacturing and trading of fibreboards. These operations were discontinued in December 2011. Details are set out in note 10.

Functional and presentation currency

Items included in the financial statement of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Hong Kong dollars (HK\$), which is the company’s functional and the Group’s presentation currency.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has adopted the following amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are or have become effective for the Group’s financial year beginning on 1 January 2013.

HKFRS 1 (Amendments)	Government Loans
HKFRSs (Amendments)	Annual Improvements to HKFRS 2009-2011 cycle
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)**HKFRS 13: Fair Value Measurement**

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

HKAS 1 (Amendments): Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, the ‘statement of comprehensive income’ is renamed as the ‘statement of profit or loss and other comprehensive income’. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKAS 1 (Amendments): Presentation of Items of Other Comprehensive Income (Continued)

However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

The adoption of the new or revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 cycle ⁴
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 cycle ²
HKFRS 9	Financial Instruments ⁵
HKFRS 7 and HKFRS 9 and HKAS 39 (Amendments)	Hedge Accounting and amendments to HKFRS 7, HKFRS 9 and HKAS 39 ⁵
HKFRS 10, HKFRS 12 and HKAS 27(Amendments)	Investment Entities ¹
HKFRS 14	Regulatory Deferral Accounts ³
HKAS 19 (Amendments)	Employee Benefit ²
HKAS 32 (Amendments)	Presentation-offsetting Financial Assets and Financial Liabilities ¹
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non- Financial Assets ¹
HKAS 39 (Amendments)	Financial Instruments: Recognition and measurement-Novation of Derivatives and Continuation of Hedge Accounting of Hedge Accounting ¹
HK(IFRIC) – Int 21	Levies ¹

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ Effective for annual periods beginning on or after 1 January 2016

⁴ Effective for annual periods beginning on or after 1 July 2014, with limited exception

⁵ No mandatory effective date yet determined but is available for adoption

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost generally based on the fair value of the consideration given in exchange for assets.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Basis of consolidation (Continued)**

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies to be in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses have been eliminated on consolidation.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Investments in an associate (Continued)**

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing part of a interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the interests in the associate that are not related to the Group.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

i. Hotel Properties

Hotel properties are stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and any subsequent impairment losses. Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of hotel properties are recognised in other comprehensive income and are accumulated in the properties revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss. To the extent that any decrease has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase dealt with in other comprehensive income. A decrease in net carrying amount of hotel properties arising on revaluations or impairment testing is recognised in other comprehensive income to the extent of the revaluation surplus in the properties revaluation reserve relating to the same asset and the remaining decrease is recognised in profit or loss.

ii. Property, plant and equipment (other than Hotel properties)

Property, plant and equipment (other than hotel properties) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than hotel properties) over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Furniture, equipment and leasehold improvements	10% to 30%
Plant and machinery	10% to 30%
Motor vehicles	15% to 30%

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Property, plant and equipment (Continued)***iii. Construction in progress*

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when it is completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current asset (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into financial assets as loans and receivables and financial assets at fair value through profit or loss. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition. All regular purchases or sales of financial assets at fair value through profit or loss are recognised and derecognised on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. At the end of each reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, prepayments and deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For the financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Financial instruments (Continued)***Impairment of financial assets (Continued)*

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

Financial liabilities and equity instruments

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

Derecognition

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

For financial liabilities, they are removed from the Group's statement of financial position (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the consideration required to settle the obligation at the end of each reporting period, and are discounted to present value where the effect is material.

Impairment loss of tangible and intangible assets (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

(i) Hotel operations

Revenue arising from hotel operations is recognised when the relevant services are rendered.

(ii) Sales of goods

Sales of goods other than properties are recognised when goods are delivered and title has passed.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue recognition (Continued)***(iii) Rental income*

Rental income arising from properties let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

(iv) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangement, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Taxation (Continued)**

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Government grants

A government grant is recognised only when there is reasonable assurance that (a) the enterprise will comply with any conditions attached to the grant and (b) the grant has been approved and will be received. Government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They shall not be credited directly to shareholders' interests. A grant receivable as compensation for costs already incurred or for immediate financial support, with no future related costs, should be recognised as income in the period in which it is receivable. Grants related to income are presented as a credit in the consolidation statement of profit or loss and other comprehensive income, under a general heading "Other income".

Retirement benefits scheme

Payments to defined contribution retirement benefit plans, including the Mandatory Provident Fund Scheme (the "MPF Scheme") and state-managed retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and the aggregate benefit is recognized as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Foreign currencies (Continued)**

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Related parties (Continued)**

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, time deposits with banks and other financial institutions, and short-term liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the consolidated statement of cash flows, bank overdrafts or bank loans, if any, which are repayable on demand and form an integral part of an enterprise's cash managements are also included as component of cash and cash equivalents.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Deferred taxation on investment properties

For the purpose of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the Directors have reviewed that Group's investment properties portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the Directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. Moreover, the fair value of the Group's investment properties is lower than acquisition cost. As a result, the Group has not recognized any deferred taxes on change in fair value of investment properties as the Group is not subject to any incomes taxes on disposal of its investment properties.

Deferred taxation on hotel properties

No deferred tax has been provided in respect of the valuation surplus relating to the Hotel Properties for the year as the carrying amount does not exceed the total investment cost and the director considered that there is no taxable flow of economic benefits to the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)**Key sources of uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to previously estimated, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of property, plant and equipment

Machinery and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the higher of fair value of the machinery and equipment less costs to sell or the value-in-use calculations. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise. As at 31 December 2013 the Group reported no impairment loss for machinery, equipment and motor vehicles.

Impairment of hotel properties

Hotel properties are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of fair value less costs to sell and value in use of the hotel properties. Management makes judgments on whether such events or changes in circumstances have occurred, and makes estimates in determining the recoverable amount.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)**Fair value of Group's properties**

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The qualified external valuers establish the appropriate valuation techniques and inputs to the model. The financial controller reports the qualified external valuers' findings to the board of Directors of the Company every year to explain the cause of fluctuations in the fair value of the assets and liabilities.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 5, 17 and 18 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets.

In making the estimate of fair value, the Group considers information from current prices in an active market for similar properties in the same location and condition and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. Group's properties were revalued as at 31 December 2013 based on the appraised market value by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

The carrying amount of investment properties and Hotel properties at 31 December 2013 was HK\$11,422,000 and HK\$112,000,000 respectively (2012: HK\$11,960,000 and HK\$92,200,000).

Net realizable value of properties held for sale

Management reviews the recoverable amount of properties held for sale at the end of each reporting period. The recoverable amount is the estimated selling price of the properties less costs to sell. Management makes estimates in determining the recoverable amount.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)**Impairment of inventories**

The management of the Group reviews an aging analysis at the end of each reporting period, and identifies obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for the inventory based primarily on the latest invoice prices and current market conditions. The Group carries out a review of the inventories on a product-by-product basis at the end of each reporting periods and provide impairment on obsolete items.

Allowance for doubtful debts of trade and other receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivable. Allowances are made on trade and other receivable whenever there is any objective evidence that the balances may not be collectible. In determining whether an allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the management investigate the relevant debts and report on the recoverability. Specific allowance is only made for those trade and other receivables that are unlikely to be collected. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the periods in which such estimate has been changed.

The carrying amount of trade and other receivables from continued operations at 31 December 2013 is HK\$137,584,000 (2012: HK\$153,614,000). Details of the recoverable amount calculation are disclosed in note 23.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

5. FINANCIAL RISK MANAGEMENT

Foreign exchange exposure

The Group mainly earned revenue and incurred cost in Renminbi (“RMB”) and Hong Kong Dollar. The effect of exchange rate fluctuation on earned revenue and incurred cost would be able to offset each other in the business operation of the Group. In past several years, the exchange rates of Renminbi to Hong Kong Dollars kept on increasing till the second half of 2008 when it became stable. The Directors expect that Renminbi’s exchange rate will remain stable and will not cause material adverse foreign exchange risk on the Group. Therefore, the Group currently does not have any specific foreign exchange risk hedging need for this matter.

The carrying amount of the Group’s and Company’s foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	The Group		The Company	
	At 31 December		At 31 December	
	2013	2012	2013	2012
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Assets				
Denominated in Renminbi	510,611	488,271	122,447	–
Denominated in US dollars	123	5,046	3	–
	<u>510,734</u>	<u>493,317</u>	<u>122,450</u>	<u>–</u>
Liabilities				
Denominated in Renminbi	<u>44,575</u>	<u>56,533</u>	<u>–</u>	<u>–</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

5. FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange exposure (Continued)

The following shows the sensitivity analysis of a 5% increase/decrease in RMB against Hong Kong dollars. The sensitivity analysis includes only RMB dollars denominated monetary items and adjusts their translation at the year end for a 5% change in RMB dollars rates. If there is a 5% increase/decrease in RMB against the Hong Kong dollars, the effect in the loss for the year is as follows:

	The Group		The Company	
	At 31 December		At 31 December	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decrease/increase in loss for the year	<u>17,602</u>	<u>14,375</u>	<u>6,122</u>	<u>–</u>

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

Interest rate risk

The Group does not have any significant exposure to the risk of changes in market interest rates as the Group does not have any long term receivables/liabilities which are subject to floating interest rate.

Liquidity risk management

Ultimate responsibility for liquidity risk management rest with the board of Directors. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

5. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk management (Continued)

As at 31 December 2013, the Group's net current assets amounted to HK\$452,287,000(2012: HK\$464,200,000), current ratio (being current assets divided by current liabilities) was approximately 4.67 times (2012: 4.33 times), while total current assets amounted to HK\$575,641,000 (2012: HK\$603,786,000), which is expected to be sufficient to meet the capital requirement of the Group's operations and development in the near future.

The following tables detail the Group's remaining contractual maturity for its financial liabilities at the end of the reporting period:

	2013					
	Weighted average interest rate %	On demand HK\$'000	Within 1 year HK\$'000	1-3 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
Trade and other payables	-	104,683	-	-	104,683	104,683
Tax payables	-	18,671	-	-	18,671	18,671
	-	123,354	-	-	123,354	123,354
2012						
	Weighted average interest rate %	On demand HK\$'000	Within 1 year HK\$'000	1-3 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
Trade and other payables	-	116,653	-	-	116,653	116,653
Tax payables	-	22,933	-	-	22,933	22,933
	-	139,586	-	-	139,586	139,586

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

5. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

Details of the Group's credit policies are included in note 23.

Fair value

i) Financial instruments carried at fair value

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key inputs
	31/12/2013	31/12/2012		
Held-for trading non-derivative financial assets	Listed equity securities In Hong Kong HK\$1,243	Listed equity securities In Hong Kong HK\$1,109	Level 1	Quoted closing prices in an active market

Except as described above, at 31 December 2013, the Company did not have any financial instruments carried at fair value.

At 31 December 2013, there were no transfers between financial instruments in Level 1 and Level 2.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

5. FINANCIAL RISK MANAGEMENT (Continued)

Fair value (Continued)

i) Fair values of financial instruments carried at other than fair value

At 31 December 2013 and 2012, the Group has no financial instruments carried at cost or amortised cost.

ii) The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted active bid prices and ask prices respectively; and
- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

6. TURNOVER

Turnover represents the gross amounts received and receivable for revenue arising on hotel operations, and goods sold by the Group to outside customers, less return and allowances and gross rental income during the year.

7. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions – hotel operations and property investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Hotel operations	–	hotel ownership and management
Property investment	–	holding investment properties and properties held for sale

Fibreboards operation was discontinued in 2011. The segment information reported on this note does not include any amounts for this discontinued operation, which are described in more detail in note 10.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

7. SEGMENT INFORMATION (Continued)

Segment information about these continuing operations is presented below:

	Segment Revenue		Segment result	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hotel operations	25,714	33,420	(1,994)	1,599
Property investment	2,329	2,245	1,968	1,907
Other operating segment	1,573	73	(775)	–
Total for continuing operations	<u>29,616</u>	<u>35,738</u>	(801)	3,506
Interest income			12,472	549
(Decrease)/increase in fair value of investment properties			(538)	159
Impairment loss on properties held for sale			(1,962)	(3,889)
Net central administration cost			<u>(6,922)</u>	<u>(6,037)</u>
Profit/(loss) before taxation			2,249	(5,712)
Income tax expense			<u>(2,260)</u>	<u>(624)</u>
Loss for the year (continuing operations)			<u>(11)</u>	<u>(6,336)</u>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2012: nil).

Segment result represents the (loss)/profit generated by each segment without allocation of investment income, central administration costs and Directors' salaries, other gains and losses, finance costs and change in fair value of investment properties. This is the measure reported to the Group's management for the purposes of resource allocation and performance assessment.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

7. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

Segment Assets	2013 HK\$'000	2012 HK\$'000
Hotel operations	129,199	110,095
Property investment	197,332	75,636
Other operating segment	<u>2,908</u>	<u>–</u>
Total segment assets	329,439	185,731
Assets relating to Fibreboards (now discontinued operations)	–	13,617
Bank balances and cash	378,888	375,422
Unallocated assets	<u>7,085</u>	<u>152,596</u>
Consolidated assets	<u><u>715,412</u></u>	<u><u>727,366</u></u>
Segment Liabilities		
Hotel operations	4,122	7,334
Property investment	405	807
Other operating segment	<u>882</u>	<u>–</u>
Total segment liabilities	5,409	8,141
Convertible notes	78,908	78,908
Unallocated liabilities	<u>39,037</u>	<u>52,537</u>
Consolidated liabilities	<u><u>123,354</u></u>	<u><u>139,586</u></u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

7. SEGMENT INFORMATION (Continued)

Other segment information

2013	Hotel operations HK\$'000	Property investment HK\$'000	Other operating segment HK\$'000	Total HK\$'000
Continuing operations				
Depreciation	7,823	–	600	8,423
Additions to non-current assets	24,082	–	–	24,082
Interest income	1,575	–	–	1,575
Impairment loss on properties held for sale	–	1,962	–	1,962
Loss on disposal of property, plant and equipment	28	–	–	28
	<u>28</u>	<u>–</u>	<u>–</u>	<u>28</u>
2012	Hotel operations HK\$'000	Property investment HK\$'000	Other operating segment HK\$'000	Total HK\$'000
Continuing operations				
Depreciation	7,200	–	–	7,200
Additions to non-current assets	1,697	–	–	1,697
Interest income	85	–	–	85
Impairment loss on properties held for sale	–	3,889	–	3,889
Income tax expenses	622	–	–	622
Loss on disposal of property, plant and equipment	16	–	–	16
	<u>16</u>	<u>–</u>	<u>–</u>	<u>16</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

7. SEGMENT INFORMATION (Continued)

Geographical segments

The Group's hotel operation is located in the People's Republic of China, other than Hong Kong (the "PRC").

Property investment is located in both PRC and Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Non-current assets*	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
The PRC	28,903	35,015	128,425	111,924
Hong Kong	713	723	11,000	11,500
	<u>29,616</u>	<u>35,738</u>	<u>139,425</u>	<u>123,424</u>

* Non-current assets exclude those relating to the Fibreboard operations

Information about major customers

For the year ended 31 December 2013 and 31 December 2012, no single external customers accounted for 10% or more of the Group's total revenue from continuing operations.

Notes to the Consolidated Financial Statements (Continued)*For the year ended 31 December 2013***8. OTHER OPERATING INCOME**

Other operating income included the following items:

	THE GROUP	
	2013	2012
	HK\$'000	HK\$'000
Continuing operations		
Interest income	12,472	549
Net exchange gain	8,948	2,538
Provision for loss in litigation written back	288	3,599
	<u>12,708</u>	<u>6,686</u>

9. INCOME TAX EXPENSE

	2013	2012
	HK\$'000	HK\$'000
Continuing operations		
Tax charges comprise:		
Current tax – Provision for PRC enterprises income tax	2,260	685
Over-Provision for PRC enterprises income tax	<u>–</u>	<u>(61)</u>
	<u>2,260</u>	<u>624</u>

No provision for Hong Kong profits tax has been made as the Group has no assessable profits in Hong Kong for the year ended 31 December 2013 (2012: Nil). PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

9. INCOME TAX EXPENSE (Continued)

The tax charge for the year can be reconciled to the profit/(loss) per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013 HK\$'000	2012 HK\$'000
Profit/(loss) before taxation from continuing operations	<u>2,249</u>	<u>(5,712)</u>
Tax at the rates applicable to profits in the countries concerned	1,132	(719)
Tax effect of non deductible expenses	4,178	3,957
Tax effect of non taxable revenue	(3,176)	(2,553)
Over-provided in previous year	–	(61)
Tax effect of tax loss not recognized	<u>126</u>	<u>–</u>
Tax effect for the year (relating to continuing operations)	<u>2,260</u>	<u>624</u>

No deferred tax has been provided in respect of the valuation surplus relating to the Hotel Properties for the year as the carrying amount does not exceed the total investment cost and the director considered that there is no taxable flow of economic benefits to the Group.

Pursuant to the PRC Corporate Income Tax Law dependent upon the nationality and domicile of the foreign investors, a 5% to 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in PRC. The requirement has become effective from 1 January 2008 and applies to earnings after 31 December 2007.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

9. INCOME TAX EXPENSE (Continued)

At 31 December 2013, the unrecognised deferred tax liabilities were approximately HK\$149,000 (2012: approximately HK\$743,000), relating to withholding tax that would be payable for undistributed profits of PRC subsidiaries, as the Directors consider that the timing for reversed of the related temporary differences can be controlled and such temporary differences will not be reversal in the foreseeable future. The total undistributed profits of these PRC subsidiaries as at 31 December 2013 amounted to approximately HK\$15,000 (2012: approximately HK\$74,000).

With regard to the Group's investment properties, as none of them is held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale, the Group has not recognised any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

10. DISCONTINUED OPERATIONS

On 20 December 2011, the Foshan City Nanhai District Environment, Transport and City Management Authority 「佛山市南海區環境運輸和城市管理局」 (“Foshan Environmental Authority”) issued a notice to Foshan City Nanhai Kang Sheng Timber Company Limited (“Kang Sheng”) and Foshan City Nanhai Jia Shun Timber Company Limited (“Jia Shun”), the wholly-owned subsidiaries of the Company and the Joint Venture Company, the Company's 42%-owned associate which carried out all of the Group's fibreboards operations, requiring them to cease their operations at the landed property (including land use rights and the buildings and structures thereon) situated at Foshan City which was leased to Kang Sheng and Jia Shun (“the property”) before 31 December 2011, in order to reduce the emission of pollutants and improve the environment in the region.

The Company signed Compensation Memorandum with the Foshan City Nanhai District People's Government 「佛山市南海區人民政府」 (“Foshan Nanhai Government”). Pursuant to the Compensation Memorandum, Foshan Nanhai Government resumed the property situated at Foshan City that was leased to Kang Sheng and Jia Shun and a lump sum payment was made to the Group as compensation for the cessation of fibreboard business. Details of this transaction and terms of compensations have been set out in the Company's announcement dated at 20 December 2011.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

10. DISCONTINUED OPERATIONS (Continued)

The results of the discontinued operation included in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows are set out below.

	2013 HK\$'000	2012 HK\$'000
<i>(Loss)/profit for the year from discontinued operations</i>		
Turnover	2,443	31,985
Cost of sales	<u>(1,995)</u>	<u>(33,343)</u>
Gross profit/(loss)	448	(1,358)
Other operating income	118	662
Selling and distribution costs	–	(91)
Administrative expenses	(3,326)	(12,253)
Share of impairment loss of an associate	–	(2,698)
Impairment loss on inventories	–	(3,765)
Impairment loss on properties, plant and equipment	–	(11,426)
Net compensation from cessation of fibreboard business	–	122,346
Net profit/(loss) on disposal of fibreboard business assets	<u>4,364</u>	<u>(1,204)</u>
Profit before taxation from discontinued operation	1,604	90,213
Attributable income tax expense	<u>(6,964)</u>	<u>(20,295)</u>
(Loss)/profit from discontinued operations and compensation	(5,360)	69,918
Gain on writing back of unclaimed liabilities and accounts payable which are legally time barred and lapsed, net of income tax (Note)	<u>3,952</u>	<u>41,947</u>
Net (loss)/profit for the year from discontinued operations (attributable to owners of the Company)	<u><u>(1,408)</u></u>	<u><u>111,865</u></u>

Note: The unclaimed liabilities and payables were generated from fibreboard business. The Company announced the cessation of fibreboard business on 20 December 2011. Up to the reporting date, no recourse of the unclaimed liabilities and payables was received by the Group. According to the legal opinion, the unclaimed liabilities and payables had been legally time barred and lapsed. Thus, the Directors decided to write back the unclaimed liabilities and payables.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

10. DISCONTINUED OPERATIONS (Continued)

(Loss)/profit for the year from discontinued operations include the following:

	2013 HK\$'000	2012 HK\$'000
Depreciation and amortization	-	-
Auditor's remuneration	-	-

Cash flows from discontinued operations

	2013 HK\$'000	2012 HK\$'000
Net cash (outflows)/inflows from operating activities	(1,317)	11,824
Net cash inflows from investing activities	10,386	186,334
Net cash inflows	9,069	198,158

11. ASSETS CLASSIFIED AS HELD FOR SALES

	2013 HK\$'000	2012 HK\$'000
Assets related to fibreboard business classified as held for sales (<i>Note 1</i>)	-	13,617

Note:

- 1) All assets classified as held for sale were disposed of during the year. The gain on disposal was recognised in the consolidated statement of profit or loss and other comprehensive income.

The major classes of assets and liabilities of the fibreboard business at the end of the reporting period are as follows:

	2013 HK\$'000	2012 HK\$'000
Properties, plant & equipment	-	10,656
Inventories	-	2,961
Assets classified as held for sale	-	13,617

Notes to the Consolidated Financial Statements (Continued)*For the year ended 31 December 2013***12. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS**

	THE GROUP	
	2013	2012
	HK\$'000	HK\$'000
Continuing operations		
Loss for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	8,593	7,610
Auditor's remuneration	700	700
Staff costs (including Directors' remuneration and retirement benefit scheme contribution)	15,069	15,707
Loss on disposal of property, plant and equipment	28	16
Gross rental income from investment properties	(2,329)	(2,245)
Less:		
Direct operating expenses from investment properties which generated rental income during the year	22	18
Direct operating expenses from investment properties which did not generate rental income during the year	229	297
	(2,078)	(1,930)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

a. Directors' emoluments

The emoluments paid or payable to each of the seven (2012: six) Directors were as follows:

	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance- based or discretionary bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
2013					
Mr. You Guang Wu	–	1,244	136	41	1,421
Mr. Su Wenzhao	–	1,080	120	36	1,236
Mr. Wu Yongqing	108	295	–	–	403
Mr. Huang Zhihe	44	120	–	–	164
Mr. Chan Kwok Wai	89	–	–	–	89
Mr. Chen Da Cheng	89	–	–	–	89
Mr. Deng Hong Ping	89	–	–	–	89
	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance- based or discretionary bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
2012					
Mr. You Guang Wu	–	1,244	136	41	1,421
Mr. Su Wenzhao	–	1,080	120	36	1,236
Mr. Wu Yongqing	108	283	–	16	407
Mr. Chan Kwok Wai	86	–	–	–	86
Mr. Chen Da Cheng	86	–	–	–	86
Mr. Deng Hong Ping	86	–	–	–	86

No Directors had waived any emoluments for both years.

Notes to the Consolidated Financial Statements (Continued)*For the year ended 31 December 2013***13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)****b. Employees' emoluments**

During the year, the five highest paid individuals included two Directors (2012: two Directors), details of whose emoluments are set out above. The emoluments of the other three individuals (2012: three individuals) were as follows:

	THE GROUP	
	2013	2012
	HK\$'000	HK\$'000
Salaries and other benefits	1,475	1,451
Retirement benefits scheme contributions	48	46
	1,523	1,497

The aggregate emoluments of each of these three (2012: three) highest paid individuals are less than HK\$1,000,000.

14. RETIREMENT BENEFIT SCHEME

The Group contributes to a defined contribution retirement scheme which is available to Hong Kong permanent employees. This retirement scheme is administered by independent trustees with their assets held separately from those of the Group. Contributions under the staff retirement scheme for each year are based on a percentage of the eligible employees' salaries and are charged to the consolidated statement of profit or loss and other comprehensive income as incurred. The total contribution to the scheme amounted to HK\$106,980 (2012: HK\$110,152) for the year and has been charged to the consolidated statement of profit or loss and other comprehensive income. Forfeited employer contributions in respect of former employees from the staff retirement scheme before vesting period may be used by the Group to reduce its ongoing employer contributions. There is no forfeited contribution utilised during the year.

At the end of the reporting period, there is no balance of forfeited contributions available to reduce the contribution payable in the future years.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

14. RETIREMENT BENEFIT SCHEME (Continued)

Since the introduction of the Mandatory Provident Fund (“MPF”) Scheme in Hong Kong, the Group has also participated in an approved MPF Scheme with Bank Consortium Trust Company Limited effective 1 December 2001 to provide an MPF Scheme to all employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited at 5% of HK\$25,000 for each eligible employee) as calculated under the MPF legislation. During the year under review, the total amount contributed by the Group to the MPF Scheme and charged to the consolidated statement of profit or loss and other comprehensive income amounted to HK\$62,859 (2012: HK\$59,302).

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

15. DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2013 and 2012.

16. (LOSS)/EARNINGS PER SHARE**From continuing and discontinued operations**

The calculation of the basic and diluted (loss)/earnings per share is based on the loss attributable to the owners of the Company of approximately HK\$1,419,000 (2012: profit of HK\$105,529,000) and on the number of 1,188,329,142 ordinary shares (2012: 1,188,329,142 ordinary shares) in issue during the year.

Notes to the Consolidated Financial Statements (Continued)*For the year ended 31 December 2013***16. (LOSS)/EARNINGS PER SHARE (Continued)****From continuing operations**

The calculation of the basic and diluted (loss)/earnings per share from continuing operations attributable to owners of the Company is based on the following data:

Loss figures are calculated as follows:

	2013	2012
	HK\$'000	HK\$'000
(Loss)/profit for the year attributable to owners of the Company	(1,419)	105,529
Less:		
(Loss)/profit for the year from discontinued operations	<u>(1,408)</u>	<u>111,865</u>
Loss for the purpose of basic/diluted loss per share from continuing operations	<u>(11)</u>	<u>(6,336)</u>

The denominators used are the same as those detailed above for both basis and diluted loss per share.

From discontinued operations

Basic/diluted (loss)/earnings per share for the discontinued operation is HK\$0.12 cents loss per share (2012: HK\$9.41 cents earnings per share), based on the loss for the year from the discontinued operations of HK\$1,408,000 (2012: Profit of HK\$111,865,000) and the denominators detailed above for the both basic and diluted loss per share.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

17. INVESTMENT PROPERTIES

	In the PRC held under medium-term leases HK\$'000	In Hong Kong held under medium-term leases HK\$'000	Total HK\$'000
FAIR VALUE OF INVESTMENT PROPERTIES			
At 1 January 2012	571	11,230	11,801
(Decrease)/increase in fair value recognised in the consolidated statement of profit or loss and other comprehensive income	(111)	270	159
At 31 December 2012 and 1 January 2013	460	11,500	11,960
Decrease in fair value recognised in the consolidated statement of profit or loss and other comprehensive income	(38)	(500)	(538)
At 31 December 2013	422	11,000	11,422

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Investment properties were revalued at their open market value at 31 December 2013 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers, on an open market value basis. This valuation gave rise to a revaluation deficit of HK\$538,000 (2012: surplus of HK\$ 159,000), which has been charged to the consolidated statement of profit or loss and other comprehensive income.

Associated Surveyors & Auctioneers Ltd is a member of the Institute of Valuers, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

17. INVESTMENT PROPERTY (Continued)

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the investment properties, the highest and best use of properties is their current use.

The following table gives information about how the respective fair values of the investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 2) based on the degree to which the inputs to the fair value measurements are observable.

Property	Fair Value Hierarchy	Valuation Technique(s) and Key Input(s)	Significant Observable Inputs
Commercial property in Shantou Special Economic Zone, Guangdong Province	Level 2	<p>Direct comparison method</p> <p>The key inputs were:</p> <p>(1) saleable floor area of the property; and</p> <p>(2) unit rate (i.e. \$ per square).</p> <p>Saleable floor areas of the property was based on developer's sale brochures.</p>	<p>Unit rate was based on direct market comparables and after taking into account of factors such as location, time of transaction, floor level, size, layout, orientation, view, age of building, building quality, etc.</p> <p>Unit rate adopted as at the date of valuation was: \$135/ft²</p>
Commercial property unit located in Hong Kong	Level 2	<p>Direct comparison method</p> <p>The key inputs were:</p> <p>(1) saleable floor area of the property; and</p> <p>(2) unit rate (i.e. \$ per square feet).</p> <p>Saleable floor area of the property was based on developer's sale brochures, our scaling off of registered floor plans or information obtained from Rating and Valuation Department of Hong Kong.</p>	<p>Unit rate was based on direct market comparables and after taking into account of factors such as location, time of transaction, floor level, size, layout, orientation, view, age of building, building quality, etc.</p> <p>Unit rate adopted as at the date of valuation was: \$3,210/ft²</p>

There were no transfers into or out of Level 2 during the year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

18. PROPERTY, PLANT AND EQUIPMENT

2013

	Hotel properties in the PRC held under medium-term leases HK\$'000	Construction in progress HK\$'000	Furniture equipment and leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost and Valuation						
THE GROUP						
At 1 January 2013	92,200	–	32,067	17,321	3,426	145,014
Addition	22,528	1,303	391	36	–	24,258
Transfer	–	(302)	224	78	–	–
Disposal and write off	–	–	(1,373)	(644)	–	(2,017)
Exchange differences	–	–	865	505	52	1,422
Deficit on revaluation	(2,728)	–	–	–	–	(2,728)
	<u>112,000</u>	<u>1,001</u>	<u>32,174</u>	<u>17,296</u>	<u>3,478</u>	<u>165,949</u>
At 31 December 2013						
Comprising:						
At cost	–	1,001	32,174	17,296	3,478	53,949
At valuation – 2013	112,000	–	–	–	–	112,000
	<u>112,000</u>	<u>1,001</u>	<u>32,174</u>	<u>17,296</u>	<u>3,478</u>	<u>165,949</u>
DEPRECIATION						
At 1 January 2013	–	–	18,248	12,769	2,377	33,394
Provided for the year	3,325	–	4,121	860	287	8,593
Eliminated on disposal and write off	–	–	(1,345)	(644)	–	(1,989)
Eliminated on revaluation	(3,325)	–	–	–	–	(3,325)
Exchange differences	–	–	523	386	18	927
	<u>–</u>	<u>–</u>	<u>21,547</u>	<u>13,371</u>	<u>2,682</u>	<u>37,600</u>
At 31 December 2013						
NET BOOK VALUES						
At 31 December 2013	<u>112,000</u>	<u>1,001</u>	<u>10,627</u>	<u>3,925</u>	<u>796</u>	<u>128,349</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

2012

	Hotel properties in the PRC held under medium-term leases HK\$'000	Construction in progress HK\$'000	Furniture equipment and leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost and Valuation						
THE GROUP						
At 1 January 2012	92,200	228	30,425	16,022	2,487	141,362
Addition	–	1,023	619	67	–	1,709
Transfer	–	(1,253)	1,042	211	–	–
Disposal and write off	–	–	(304)	(783)	–	(1,087)
Transferred from held for sale	–	–	193	1,645	932	2,770
Exchange differences	–	2	92	159	7	260
At 31 December 2012	92,200	–	32,067	17,321	3,426	145,014
Comprising:						
At cost	–	–	32,067	17,321	3,426	52,814
At valuation – 2012	92,200	–	–	–	–	92,200
	92,200	–	32,067	17,321	3,426	145,014
DEPRECIATION						
At 1 January 2012	–	–	14,805	12,695	2,193	29,693
Provided for the year	2,973	–	3,753	704	180	7,610
Eliminated on disposal and write off	–	–	(291)	(762)	–	(1,053)
Eliminated on revaluation	(2,973)	–	–	–	–	(2,973)
Exchange differences	–	–	(19)	132	4	117
At 31 December 2012	–	–	18,248	12,769	2,377	33,394
NET BOOK VALUES						
At 31 December 2012	92,200	–	13,819	4,552	1,049	111,620

Notes to the Consolidated Financial Statements (Continued)*For the year ended 31 December 2013***18. PROPERTY, PLANT AND EQUIPMENT (Continued)****Fair value measurement of the Group's buildings**

The Group's hotel properties situated in the PRC were valued on 31 December 2013 and 31 December 2012 by Associated Surveyors & Auctioneers Ltd., a firm of independent valuers not related to the Group.

The fair value of the buildings were determined based on the market comparable approach that reflects recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the buildings under review. There has been no change to the valuation approach during the year.

The Group's hotel properties were classified under Level 2 in the fair value hierarchy. There were no transfers into or out of Level 2 during the year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

If hotel properties had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$71,682,000 (2012: HK\$51,902,000).

19. INVESTMENT IN AN ASSOCIATE

	2013 HK\$'000	2012 HK\$'000
Unlisted shares, at cost	–	10,108
Share of loss of an associate	–	(10,105)
Share of exchange reserve	–	(3)
	<hr/>	<hr/>
Share of net assets	–	–
Reclassified as held for sale	–	–
	<hr/>	<hr/>
	<hr/>	<hr/>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

19. INVESTMENT IN AN ASSOCIATE (Continued)

Details of the Group's associate as at 31 December 2013 are set out as follows:

Name of associate	Place of registration/ operation	Paid up registered capital RMB	Proportion ownership interest held by the Company		Principal Activities
			2013	2012	
Foshan Nanhai Kangyao Board Co., Ltd.	People's Republic of China	20,000,000	42%	42%	Production, processing and sales of overlaid wooden board products

Summarised financial information in respect of the Group's associate is set out below:

	2013 HK\$'000	2012 HK\$'000
Total assets	–	2,641
Total liabilities	–	(2,862)
Net assets/(liabilities)	–	(221)
Group's share of net assets of an associate	–	–
	2013 HK\$'000	2012 HK\$'000
Total revenue	–	240
Total loss for the year	–	(6,815)
Group's share of impairment loss of an associate*	–	(2,698)
Group's share of exchange difference arising from the foreign operation associate	–	(75)

* Already reallocated from non-current assets held for sale as at 31 December 2011. Share of loss of an associate had been recognised in the profit for the year from discontinuing operations in the consolidation statement of profit or loss and other comprehensive income.

Notes to the Consolidated Financial Statements (Continued)*For the year ended 31 December 2013***20. INVESTMENTS IN SUBSIDIARIES**

	THE COMPANY	
	2013	2012
	HK\$'000	HK\$'000
Unlisted investments, at cost	1,096,607	1,096,607
Less: Impairment loss	(1,073,000)	(1,073,000)
	<u>23,607</u>	<u>23,607</u>

Particulars of the Company's principal subsidiaries as at 31 December 2013 are set out in note 34.

21. PROPERTIES HELD FOR SALE**THE GROUP**

Properties held for sale are stated at net realisable value. They are held under medium-term lease in PRC.

22. INVENTORIES

	THE GROUP	
	2013	2012
	HK\$'000	HK\$'000
At Cost		
Food, beverages and hotel supplies	1,574	1,592
Raw material	16	–
	<u>1,590</u>	<u>1,592</u>

The Directors considered the provision for inventory obsolescence of the inventory of continuing operation is not required. (2012: Nil)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

23. TRADE AND OTHER RECEIVABLES

THE GROUP

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group allows an average credit period of 90 days to its customers.

The following is an aging analysis of the Group's trade receivables at the end of the reporting period:

	THE GROUP	
	2013	2012
	HK\$'000	HK\$'000
0-60 days	1,266	1,151
61-90 days	148	446
91-120 days	123	69
over 120 days	88	386
	<u>1,625</u>	<u>2,052</u>
Trade receivables	1,625	2,052
Other receivables	<u>135,959</u>	<u>151,562</u>
	<u><u>137,584</u></u>	<u><u>153,614</u></u>

Other receivables included the following items:

	2013	2012
	HK\$'000	HK\$'000
Deposit for the acquisition of property (<i>Note b</i>)	130,657	–
Interest receivable	3,743	25
Compensation receivable from cessation of the fibreboard business (<i>Note a</i>)	–	149,315
Utility deposit, prepayment and other receivables	<u>1,559</u>	<u>2,222</u>
	<u><u>135,959</u></u>	<u><u>151,562</u></u>

Notes a:

The compensation receivable of HK\$149,315,000 in relation to discontinued operations stated in note 23 has been received in the current year.

Notes b:

Deposit for the acquisition of a property which comprises 98 office units situated at Block 1 of Guangdong-Hongkong Finance and Technology Park, 6 Jinke Road, Guicheng Street, Nanhai District, Foshan city, Guangdong province, the PRC, by way of pre-sale prior to the completion of the construction of the property.

Notes to the Consolidated Financial Statements (Continued)*For the year ended 31 December 2013***23. TRADE AND OTHER RECEIVABLES (Continued)**

The Group does not hold any collateral or other credit enhancements over these balances.

Of the trade receivables balance at the end of the year, HK\$125,000 (2012: HK\$ 365,000) was due from the Group's largest customer. There are five (2012: eight) other customers who represent more than 5% of the total balance of trade receivables amounting to HK\$ 570,000 (2012: HK\$1,228,000).

At as 31 December 2013, trade receivables over 90 days amount to HK\$211,000 (2012: HK\$ 455,000) were past due but not impaired as the balance were related to debtors with sound repayment history and no recent history of default.

The carrying amounts of the trade and other receivables that were neither past due nor impaired relate to other debtors for whom there was no recent history of default. The Directors considered that the carrying amount of trade and other receivables approximates to their respective fair value.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 HK\$'000	2012 HK\$'000
THE GROUP		
Listed shares in Hong Kong	<u>1</u>	<u>1</u>
Market value of listed shares	<u>1</u>	<u>1</u>
Carrying amount analysed for reporting purposes as:		
Current	1	1
Non-current	<u>-</u>	<u>-</u>
Total	<u>1</u>	<u>1</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

25. BANK BALANCE AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of six month or less.

Bank balances are interest bearing at respective saving deposits rate in Hong Kong and the PRC, and the effective interest rates of the Group's bank balances ranged from 0.01% to 1.5% in Hong Kong and ranged from 1% to 3.05% in the PRC. (2012: 0.98% to 1.7% in Hong Kong and 0.03% to 1.21% in the PRC) per annum.

The carrying amounts of bank balances and cash are denominated in the following currencies:

	The Group		The Company	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Hong Kong Dollars	5,253	29,041	152	159
Renminbi	373,512	341,335	122,447	–
United States Dollars	123	5,046	3	1
	<u>378,888</u>	<u>375,422</u>	<u>122,602</u>	<u>160</u>

26. TRADE AND OTHER PAYABLES

THE GROUP

The following is an aging analysis of the Group's trade payables at the end of the reporting period:

	THE GROUP	
	2013 HK\$'000	2012 HK\$'000
0-60 days	1,247	1,341
61-90 days	133	180
91-120 days	121	83
over 120 days	<u>196</u>	<u>4,137</u>
Trade payables	1,697	5,741
Other payables	<u>102,986</u>	<u>110,912</u>
	<u>104,683</u>	<u>116,653</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

26. TRADE AND OTHER PAYABLES (Continued)

Other payables included the following items:

	The Group	
	2013 HK\$'000	2012 HK\$'000
Other tax payable	10,111	17,449
Payable on convertible notes interest payable (<i>Note 1</i>)	78,908	78,908
Others (<i>Note 2</i>)	13,967	14,555
	102,986	110,912
	102,986	110,912

Notes:

- On 9 May 2002, the Group issued HK\$230,000,000 convertible notes (the "Notes") which were due on 9 May 2007 (the "Maturity Date"), bearing interest at 1% per annum and in units of HK\$1,000,000 each. As at 31 December 2013 and 2012, the balance of HK\$75,000,000 notes were due but not converted. Such principal monies together with all interest accrued thereon up to maturity, amounting to HK\$3,908,000, were reclassified as other payables and become repayable on demand.
- Others include accrued staff salaries and welfare, deposit received from hotel customers and other temporary receipt.

The Directors considered that the carrying amount of trade and other payables approximates to their fair value.

27. SHARE CAPITAL

	Number of shares		Nominal value	
	2013	2012	2013 HK\$'000	2012 HK\$'000
Ordinary shares of HK\$0.10 each				
<i>Authorised:</i>				
At beginning and end of the year	3,000,000,000	3,000,000,000	300,000	300,000
<i>Issued and fully paid:</i>				
At beginning and end of the year	1,188,329,142	1,188,329,142	118,833	118,833

The shares issued rank pari passu in all respects with the existing shares of the Company.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

28. SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 20 May 2003 (the “Old Scheme”) and the Old Scheme was for a term of 10 years from the date of adoption. The Old Scheme was terminated by shareholders of the Company at the annual general meeting held on 26 April 2013. There was no outstanding option under the Old Scheme as at 31 December 2012 and 2013.

A new share option scheme was adopted by shareholders of the Company at the said annual general meeting held on 26 April 2013 (the “New Scheme”).

The purpose of the New Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remuneration, compensating and/or providing benefits to the participants for their contribution or future contribution to the Group and to strengthen the many long-term relationships that the participants may have with the Group. Eligible participants means any person falling within any of the following classes (a) any employee; (b) any business associate of the Company or any subsidiary; (c) any other group or classes of participants which the board, in its absolute discretion, considers to have contributed or will contribute, whether by way of business alliance or other business arrangement, to the development and growth of the Group. The New Scheme became effective on 26 April 2013 and, will remain in force for 10 years.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and other share option schemes of the Company shall not in aggregate exceed 10 per cent of the total number of shares in issues as at the date of adoption of the New Scheme (i.e. 118,832,914 Shares of the Company) unless the Company obtain a fresh approval from the shareholders.

No option shall be granted to any participant such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such participant under the New Scheme and any other option schemes of the Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant shall exceed 1 per cent. of the total number of shares in issue.

Under the New Scheme, where the Board proposes to grant any option to a participant who is a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to him or her under the Scheme and any other option schemes of the Company in the 12-month period up to and including the date of such grant; (i) representing in aggregate more than 0.1 per cent. of the total number of Shares in issue; and (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of \$5,000,000, such proposed grant of options must be approved by the shareholders of the Company in general meeting with all connected persons of the Company abstaining from voting (except that any connected persons may vote against the relevant resolution at such general meeting provided that his intention to do so is stated in the circular to the shareholders of the Company). Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted when the duplicate letter comprising acceptance of the offer, duly signed by the grantee with the number of share in respect of which the offer is accepted clearly stated therein, together with a remittance in favour of the Company of \$1.00 by way of consideration for the grant thereof is received by the Company within 1 month from the offer date.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

28. SHARE OPTION SCHEME (Continued)

The subscription price of share options granted under the New Scheme shall be a price solely determined by the Board and notified to a participant in the offer letter and shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date; (b) a price being the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the offer date; and (c) the nominal value of a share on the offer date.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share options schemes of the Company shall not exceed 30 per cent. (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

No option has been granted under the New Scheme since its adoption.

29. CONTINGENT LIABILITIES

The Group had a maximum contingent consideration of HK\$48,000,000 in respect of the acquisition of the entire issued share capital of Can Manage Trading Limited ("Can Manage"). This amount would become payable, among others, if the consolidated net profit of Can Manage and its subsidiary, Foshan City Nanhai Jia Shun Timber Company Limited ("Jia Shun"), achieved an amount of HK\$70,000,000 for the year ended 31 December 2002 and HK\$80,000,000 for the year ended 31 December 2003.

However, the operation of Jia Shun was suspended during the period from 17 August 2003 to 10 October 2003 due to a failure in the supply of electricity and steam from the power plant operated under the power supply agreement and a court order dated 19 August 2003 to freeze Jia Shun's assets in relation to an alleged claim from the Shenzhen Development Bank Foshan Branch. In addition, the production facilities were substantially different from those prior to the suspension. In view of all the above incidences, and as the consolidated net profit of Can Manage and Jia Shun for the year ended 31 December 2003 did not reach HK\$80,000,000, the Directors consider that the Group is not liable to pay any contingent consideration.

However, as the vendor is not contactable up to the date of this report, the Directors decide to reflect this amount as a contingent liability until the liability becomes legal time-barred and could no longer be recoured by the vendor.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

30. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2013 HK\$'000	2012 HK\$'000
Minimum lease payments paid under operating leases during the year:		
Premises	<u>1,131</u>	<u>2,526</u>

At the end of each reporting period, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	2013 HK\$'000	2012 HK\$'000
Within one year	1,082	5,672
In the second to fifth year inclusive	49	19,150
Over fifth year	<u>–</u>	<u>13,308</u>
	<u>1,131</u>	<u>38,130 (Note)</u>

Note: Terminated through negotiation the cessation of operation

The Group as lessor

The Group's property rental income earned during the year was approximately HK\$2,329,000 (2012: HK\$2,245,000). All of the properties held have committed tenants for more than one year.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2013 HK\$'000	2012 HK\$'000
Within one year	4,610	4,081
In the second to fifth year inclusive	14,629	4,406
Over fifth year	<u>11,104</u>	<u>1,895</u>
	<u>30,343</u>	<u>10,382</u>

Notes to the Consolidated Financial Statements (Continued)*For the year ended 31 December 2013***31. COMMITMENTS**

	2013 HK\$'000	2012 HK\$'000
Commitments for the acquisition of the property, plant and equipment	90	–
Commitments for the acquisition of the investment properties	<u>127,117</u>	<u>–</u>

32. RELATED PARTY TRANSACTION**Compensation of key management personnel**

The remuneration of Directors and other members of key management during the year was as follows:

	2013 HK\$'000	2012 HK\$'000
Short-term employee benefits	3,971	3,777
Post-employment employee benefits	<u>92</u>	<u>107</u>
	<u>4,063</u>	<u>3,884</u>

The remuneration of Directors and key management personnel is determined or proposed by the remuneration committee having regard to the performance of individuals and market trends.

33. EVENT AFTER THE REPORTING PERIOD

On 17 January 2014, CIH Finance Investment Holdings Limited, a wholly-owned subsidiary of the Group, entered into the joint venture agreement with Guangdong Technology Financial Group Co., Ltd. (“Guangdong Tech-Finance”), Guangdong Qunxing Toys Joint-Stock Co., Ltd. (“Guangdong Qunxing”) and Centenio Group Co., Ltd. (“Centenio Group”) for the establishment of a joint venture Company to engage in finance leasing business in Guangdong, the PRC. The initial registered capital of the Joint Venture Company will be RMB620,000,000 and it will be contributed as to 35% by Guangdong Tech-Finance, 25% by CIH Finance Investment Holdings Limited, 20% by Guangdong Qunxing and 20% by Centenio Group Company.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

34. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2013 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held %	Principal activity
<i>Direct subsidiary</i>				
China Investments Limited	Hong Kong	HK\$1,000	100	Investment holding
<i>Indirect subsidiaries</i>				
Airlane Development Limited	Hong Kong	HK\$2	100	Property trading
Barmax Development Limited	Hong Kong	HK\$2	100	Property trading
Botex Development Limited	Hong Kong	HK\$2	100	Property trading
Centon Development Limited	Hong Kong	HK\$2	100	Property trading
Charland Investment Limited	Hong Kong	HK\$2	100	Property trading
China Alliance Industries	Hong Kong	HK\$2	100	Property trading
China Industrial Development Limited	Hong Kong	HK\$2	100	Investment holding
Guilin Plaza (HK) Limited**	Hong Kong	HK\$4	100	Financial Investment
Cyro Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Expert Target Development Limited	Hong Kong	HK\$2	100	Property trading
Greenswood Property Limited	Hong Kong	HK\$2	100	Property investment
Guilin Plaza Hotel (Note)	PRC	US\$9,690,000	100	Hotel operations
Jofra Company Limited	Hong Kong	HK\$1,000	100	Investment holding
Foshan City Nanhai Jia Shun Timber Company Limited* 佛山市南海佳順木業有限公司(Note)	PRC	HK\$39,800,000	100	Manufacturing and trading of medium density fibreboards
Foshan City Nanhai Kang Sheng Timber Company Limited* 佛山市南海康盛木業有限公司(Note)	PRC	HK\$81,000,000	100	Wood processing

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

34. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held %	Principal activity
Foshan City Nanhai Canmanage Investments Holdings Limited* 佛山市南海康美投資有限公司(<i>Note</i>)	PRC	RMB\$30,000,000	100	Property investment
Langmax Investment Limited	Hong Kong	HK\$2	100	Property trading
Lina Development Limited	Hong Kong	HK\$2	100	Property trading
Metropolitan Development Limited	Hong Kong	HK\$2	100	Property trading
Rich Asset Development Limited	Hong Kong	HK\$2	100	Property trading
Rich Horn Development Limited	Hong Kong	HK\$2	100	Property trading
Senicon Investment Limited	Hong Kong	HK\$2	100	Property trading
Sabrina Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Sino Sense Development Limited	Hong Kong	HK\$2	100	Property trading
Trener Investment Limited	Hong Kong	HK\$2	100	Property trading
Universal Talent Development Limited	Hong Kong	HK\$2	100	Property trading

Note: wholly foreign owned enterprise.

*: For identification propose only

** : The name of the Company has been changed to "CIH Finance Investments Holdings Limited" on 6th January 2014.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2013

35. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to confirm to the current year presentation.

Five Years Financial Summary

	Year ended 31 December				2013 HK\$'000
	2009* HK\$'000	2010* HK\$'000	2011 HK\$'000	2012 HK\$'000	
RESULTS					
Continuing operations					
Turnover	<u>413,730</u>	<u>489,873</u>	<u>36,560</u>	<u>35,738</u>	<u>29,616</u>
(Loss)/profit for the year	<u>(42,029)</u>	<u>20,872</u>	<u>1,850</u>	<u>(6,336)</u>	<u>(11)</u>
Discontinued operation (loss)/profit for the year	<u>–</u>	<u>–</u>	<u>(62,806)</u>	<u>111,865</u>	<u>(1,408)</u>
(Loss)/profit for the year attributable to owners	<u>(42,029)</u>	<u>20,872</u>	<u>(60,956)</u>	<u>105,529</u>	<u>(1,419)</u>
(Loss)/earnings per share					
From continuing and discontinued operations					
Basic	<u>(HK3.54 cents)</u>	<u>HK1.76 cents</u>	<u>(HK5.13 cents)</u>	<u>HK8.88 cents</u>	<u>(HK0.12 cents)</u>
Diluted	<u>(HK3.54 cents)</u>	<u>HK1.76 cents</u>	<u>(HK5.13 cents)</u>	<u>HK8.88 cents</u>	<u>(HK0.12 cents)</u>
	Year ended 31 December				2013
	2009* HK\$'000	2010* HK\$'000	2011 HK\$'000	2012 HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Total assets	686,907	721,642	636,739	727,366	715,412
Total liabilities	<u>(177,540)</u>	<u>(186,102)</u>	<u>(159,714)</u>	<u>(139,586)</u>	<u>(123,354)</u>
Equity contributable to owners	<u>509,367</u>	<u>535,540</u>	<u>477,025</u>	<u>587,780</u>	<u>592,058</u>

* The result for each of the year from 2009 – 2010 have not been re-presented for the discontinued operation.

Particulars of Major Properties

Particulars of major properties held by the Group as at 31 December 2013 are as follows:

Name/Location	Effective % held	Category of lease	Type	Total gross floor area on completion (s.m.)	Stage	Expected year of completion
<i>Hotel properties</i>						
Guilin Plaza, 20 Li Jiang Lu Guilin, Guangxi, The PRC.	100	Medium	Hotel	29,746	Existing	N/A
<i>Investment properties</i>						
Kai Yip Factory Building Portion A on G/F, No. 15-17 Sam Chuk Street San Po Kong Kowloon, Hong Kong.	100	Medium	Industrial	459	Existing	N/A
Room 702, 703 and 704 of Block D of Shantou Commercial Plaza at the junction of Jinsha Road East and Huashan Road Shantou Special Economic Zone, Guangdong Province, The PRC.	100	Medium	Residential	291	Existing	N/A

Particulars of Major Properties (Continued)

Particulars of major properties held by the Group as at 31 December 2013 are as follows:

Name/Location	Effective % held	Category of lease	Type	Total gross floor area on completion (s.m.)	Stage	Expected year of completion
<i>Properties held for sale</i>						
Levels 5-7, 9, 12-14, 17-22 of Block A and all shopping spaces in the podium under Block B & C of Shantou Commercial Plaza at the junction of Jinsha Road East and Huashan Road, Shantou Special Economic Zone, Guangdong Province The PRC.	100	Medium	Commercial/ Residential	13,323	Existing	N/A
10th Floor of Building B, 6th, 8th, 11th, 15th, 17th and 25th Floors of Building A, International Commerce Building, Banzhang Lake, South Riverside, Huizhou City, Guangdong Province, The PRC.	100	Long	Commercial/ Office	4,289	Existing	N/A

3. INDEBTEDNESS STATEMENT

As at the close of business on 7 May 2014, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, save that the Enlarged Group had a maximum contingent consideration of HK\$48,000,000 in respect of the acquisition of the entire issued share capital of Can Manage Trading Limited (as disclosed on page 88 of the 2013 annual report of the Company dated 13 March 2014). The Enlarged Group had total outstanding interest-bearing bank loans of approximately HK\$102,500,000, comprising secured bank loan of HK\$5,000,000 and US\$12,500,000 (approximately HK\$97,500,000).

As at 7 May 2014, certain bank deposits and property acquired by the Enlarged Group on 16 September 2013 subject to complete of approximately HK\$119,214,000 and HK\$253,169,000, respectively, had been pledged to banks to secure credit facilities to the Enlarged Group.

Save as aforesaid as at the close of business on 7 May 2014, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

The Directors confirmed that there have been no material change in the indebtedness and contingent liabilities of the Group since 7 May 2014 and up to the Latest Practicable Date.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash and bank balances, other internal resources and available credit facilities, the Enlarged Group has sufficient working capital for its present requirements and for at least 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. MATERIAL CHANGE

The Directors confirm that, save and except for the (i) proposed Acquisition as set out in this circular; (ii) the joint venture agreement entered into by CIH Finance Investments Holdings Limited, a wholly-owned subsidiary of the Company, with 廣東省粵科金融集團有限公司 (Guangdong Technology Financial Group Co., Ltd), 廣東群興玩具股份有限公司 (Guangdong Qunxing Toys Joint-Stock Co., Ltd) and 中南恒展集團有限公司 (Centenio Group Co., Ltd.) for the establishment of the joint venture company, 廣東粵科融資租賃有限公司 (Guangdong Financial Leasing Co., Ltd.) on 17 January 2014, as disclosed in the announcement and circular of the Company dated 17 January 2014 and 11 February 2014 respectively; (iii) bank loans amounting to approximately HK\$5 million and HK\$98 million drawn down on 17 March 2014 and 29 April 2014 respectively; and (iv) unrealized exchange losses mainly arising from the Group's cash and bank and

intercompany balances denominated in RMB since 31 December 2013 and up to the Latest Practicable Date; there has been no material change in the financial or trading position or outlook of the Group since 31 December 2013, being the date to which the latest published audited accounts of the Company as set out in Appendix I of this circular were made up, up to the Latest Practicable Date.

7. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in the hotel operation and property investment business. Over the past year, the Group's business was under transformation. The Group's revenue decreased substantially as the disposal of the Group's main business, medium density fibreboard business, and related assets had been basically completed, while new acquisitions have not yet been concluded.

Regarding the Group's hotel business, due to several factors such as the continued appreciation of RMB and the tightened control on government spending in entertainment in the PRC, the hotel business in China remained under heavy pressure, not only resulting in reduced tourist arrivals and business activities, intense competition in the industry, but also imposing high pressure on room rates and catering consumption. Under such unfavourable conditions in the tourism industry, Guilin Plaza continued to focus more on promotions for individual tourists in order to bring up the occupancy of the hotel. As for costs control, Guilin Plaza continued to implement prudent cost control measures to mitigate the pressure from continuously rising prices. With the aim of increasing the competitiveness of Guilin Plaza in the adverse business environment, the Group intends to expand the annex building of Guilin Plaza, through which the ancillary facilities of the hotel would be improved and allowing the Group to benefit from economies of scale. The expansion project is currently in the planning and designing stage. The Directors are confident that together with the continued implementation of strict control over costs, and upon the successive completion of the expansion of the annex building of Guilin Plaza, the Group's hotel business will benefit from the gradual recovery of the economy and the tourism industry in the PRC in the next few years.

Regarding the Group's property investment business, the Group has continued to focus on investing in high quality properties in the core regions of the Pearl River Delta and in Hong Kong, to increase investments in properties with higher appreciation potential and to dispose non-core properties with unsatisfactory yields. In December 2013, 佛山市南海康美投資有限公司 (*"Foshan City Nanhai Canmanage Investments Holdings Limited"), a wholly-owned subsidiary of the Company, and 佛山市南海承業投資開發管理有限公司 (*"Foshan Nanhai Chengye Investment Development and Management Co., Ltd.") entered into formal sale and purchase agreements for commodity housing in relation to the 98 office units situated at Block 1 of Guangdong-Hongkong Finance & Technology Park (粵港金融科技園), 6 Jinke Road, Guicheng Street, Nanhai District, Foshan City, Guangdong Province, the PRC. The total consideration for the sale and purchase of the 98 office units amounted to approximately RMB200 million, of which approximately RMB100 million remains to be settled upon completion of the transaction, which is expected to take place by 31 July 2014 once the Company receives all the documents issued by the relevant PRC governmental or regulatory authorities evidencing final acceptance of the 98 office units. The Group expects the entering into of rental agreements in respect of these office units as soon as practicable following their delivery, which delivery is expected to take place by 31 July 2014. The Group has no present intention nor any concrete plans to develop any other property project.

On 17 January 2014, CIH Finance Investments Holdings Limited, a wholly-owned subsidiary of the Company, entered into the joint venture agreement and articles of association with 廣東省粵科金融集團有限公司(Guangdong Technology Financial Group Co., Ltd), 廣東群興玩具股份有限公司(Guangdong Qunxing Toys Joint-Stock Co., Ltd) and 中南恒展集團有限公司(Centenio Group Co., Ltd.) for the establishment of 廣東粵科融資租賃有限公司(Guangdong Financial Leasing Co., Ltd.) (the “**JV Company**”), as disclosed in the announcement and circular of the Company dated 17 January 2014 and 11 February 2014 respectively. The JV Company was successfully established on March 2014, and is currently at the initial stage of hiring employees, setting up various departments and approaching new customers in the finance leasing business. The Group has no concrete future plans for the JV Company yet, and for now intends to leverage on the experience and connections of its joint venture partners in the finance leasing industry.

The Group has been actively identifying investment projects with good prospects and high potentials for creating additional value, so to fulfil the Group’s objective of transforming into an enterprise with comprehensive development in a range of businesses. The Group believes that the technology and know-how employed in its former fibreboard manufacturing and trading business, would assist the Group in its intended investment in environmental infrastructure projects, such as the one principally engaged in by the Project Company. The Directors are confident that its profitability will gradually be boosted upon the successive completion of the Acquisition, and expect that the Enlarged Group will benefit from the future prospects of the Project Company and the untapped potential of the cogeneration of thermal power and heat business in the PRC.

Save as disclosed above, as at the Latest Practicable Date, the Group has no intention, negotiation, arrangement or understandings in relation to any further acquisition or investment, disposal, scaling-down and/or termination of its existing businesses.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

The following is the text of a report received from the Company's reporting accountant, HLM CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

30 June 2014

The Directors

China Investments Holdings Limited

Dear Sirs,

We report on the financial information of Southern Limited南大有限公司("Southern") and its subsidiaries (hereinafter collectively the referred to as "Southern Group") comprising the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Southern Group for each of the three years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), and the consolidated statement of financial position of the Southern Group as at 31 December 2011, 2012 and 2013, and the statement of financial position of Southern as at 31 December 2011, 2012 and 2013, together with the notes thereto (the "Financial Information") for inclusion in the circular to be issued by China Investments Holdings Limited (the "Company") to be dated 30 June 2014 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Southern by the Company which constitutes a major transaction of the Company under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Southern was incorporated in Hong Kong on 29 October, 1991 as a limited liability company. The registered office of Southern is 18th Floor, Empress Plaza, 17-19 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

During the Relevant Periods and at the date of this report, Southern has direct interests in the following subsidiaries:

Company name	Place and date of incorporation/ establishment	Issued and fully paid share capital	Proportion of nominal value of issued share capital held			At the date of this report	Principal activities
			At 31 December				
			2011	2012	2013		
			%	%	%	%	
Nanli Power Co. Ltd 南里電力有限公司	The British Virgin Islands ("BVI"), 26/11/1991	100 ordinary shares of US\$1 each	100	100	100	100	Investment Holding
Nantang Power Co. Ltd 南糖電力有限公司	BVI, 12/11/1991	100 ordinary shares of US\$1 each	100	100	100	100	Investment Holding

Southern and its subsidiaries have adopted 31 December as their financial year end date.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

The statutory financial statements of Southern for the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in Hong Kong and were audited by the following certified public accountants registered in Hong Kong:

Company name	Financial period	Name of auditors
Southern Limited	For the three years ended 31 December 2013	Simon Chan & Co.

No audited statutory financial statements have been prepared for Nanli Power Co. Ltd and Nantang Power Co. Ltd as there is no statutory requirement to prepare financial statements in the BVI.

For the purpose of this report, the directors of Southern are responsible for the preparation of the financial statements of Southern during the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by HKICPA. We have not audited any financial statements of Southern Group in respect of any period subsequent to 31 December 2013.

The Financial Information of Southern for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 3 of Section II below with no adjustment made thereon.

The Underlying Financial Statements are the responsibility of the directors of Southern who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Southern Group as at 31 December 2011, 2012 and 2013 and of the Southern Group’s results for the Relevant Periods.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2 of Section II to the Financial Information, which states that the Southern Group’s current liabilities exceeded its current assets by HK\$22,493,546, HK\$22,188,801 and HK\$127,343,583 as at 31 December 2011, 2012 and 2013 respectively and Southern remained at a net current liability position of HK\$ 204,842,731, HK\$204,537,986 and HK\$205,915,731 as at 31 December 2011, 2012 and 2013 respectively. These conditions, along with other matters as set forth in note 2 of Section II to the Financial Information, indicates the existence of a material uncertainty that may cast significant doubt about the Southern Group’s ability to continue as a going concern if it does not have the financial support of its shareholders.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

I. FINANCIAL INFORMATION OF THE SOUTHERN GROUP

The following is the financial information of the Southern Group as at 31 December 2011, 2012 and 2013 and for each of the years ended 31 December 2011, 2012 and 2013 prepared by the directors of Southern.

1. Consolidated Statement of Profit or Loss and Other Comprehensive Income

	<i>Notes</i>	Year ended 31 December		
		2011	2012	2013
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Rental income	9	324,972	456,000	456,000
Cost of sales		<u>—</u>	<u>—</u>	<u>—</u>
Gross profit		324,972	456,000	456,000
Interest income		1,388	3,877	2,869
Administrative expenses		(326,578)	(224,330)	(249,886)
Net exchange (loss)/gain		(1,152,099)	6,015	(765,948)
Increase in fair value of investment property		2,100,000	1,500,000	900,000
Share of profit of an associate		<u>5,751,981</u>	<u>42,661,490</u>	<u>51,030,422</u>
Profit before income tax	<i>10</i>	6,699,664	44,403,052	51,373,457
Income tax expenses	<i>11</i>	<u>(25,857)</u>	<u>(24,585)</u>	<u>(26,180)</u>
Profit for the year attributable to owners of the Southern Group		<u><u>6,673,807</u></u>	<u><u>44,378,467</u></u>	<u><u>51,347,277</u></u>
Other comprehensive income				
Items that may be reclassified to profit or loss				
Share of exchange differences of an associate		<u>5,938,082</u>	<u>910,468</u>	<u>7,678,248</u>
Other comprehensive income for the year, net of tax		<u>5,938,082</u>	<u>910,468</u>	<u>7,678,248</u>
Total comprehensive income attributable to owners of the Southern Group		<u><u>12,611,889</u></u>	<u><u>45,288,935</u></u>	<u><u>59,025,525</u></u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

2. Consolidated Statement of Financial Position

		As at 31 December			
		2011	2012	2013	
<i>Notes</i>		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	
Non-current assets					
	Property, plant and equipment	12	2,469,628	2,381,860	2,296,024
	Investment property	13	17,100,000	18,600,000	19,500,000
	Interest in an associate	14	<u>169,666,924</u>	<u>213,238,882</u>	<u>376,605,025</u>
			<u>189,236,552</u>	<u>234,220,742</u>	<u>398,401,049</u>
Current assets					
	Other receivables		–	28,371	634
	Utility deposit		6,800	6,800	4,000
	Prepaid income tax		4,937	–	16,250
	Bank balances and cash	15	<u>4,741,314</u>	<u>4,985,513</u>	<u>5,273,669</u>
			<u>4,753,051</u>	<u>5,020,684</u>	<u>5,294,553</u>
Current liabilities					
	Tenants' deposits		(76,000)	(76,000)	(76,000)
	Other payable		(15,967)	–	–
	Rental received in advances		(38,000)	–	–
	Accrued expenses		(16,000)	(16,900)	(44,100)
	Amount due to related company	16	(27,100,630)	(27,094,615)	(132,518,036)
	Tax payable		<u>–</u>	<u>(21,970)</u>	<u>–</u>
			<u>(27,246,597)</u>	<u>(27,209,485)</u>	<u>(132,638,136)</u>
	Net current liabilities		<u>(22,493,546)</u>	<u>(22,188,801)</u>	<u>(127,343,583)</u>
	Total assets less current liabilities		<u>166,743,006</u>	<u>212,031,941</u>	<u>271,057,466</u>
Equity					
	Share capital	17	10,000	10,000	10,000
	Reserves		<u>166,733,006</u>	<u>212,021,941</u>	<u>271,047,466</u>
	Equity attributable to owners of the Southern Group		<u>166,743,006</u>	<u>212,031,941</u>	<u>271,057,466</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

3. Statement of Financial Position of Southern

As at 31 December			
	2011	2012	2013
<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Non-current assets			
Property, plant and equipment	2,469,628	2,381,860	2,296,024
Investment property	17,100,000	18,600,000	19,500,000
Other investment	14 18,219,047	18,219,047	19,099,482
Interest in subsidiaries	174,757,763	174,757,763	174,757,763
	<u>212,546,438</u>	<u>213,958,670</u>	<u>215,653,269</u>
Current assets			
Other receivables	–	28,371	634
Utility deposit	6,800	6,800	4,000
Prepaid income tax	4,937	–	16,250
Bank balances and cash	4,741,314	4,985,513	5,273,669
	<u>4,753,051</u>	<u>5,020,684</u>	<u>5,294,553</u>
Current liabilities			
Tenants' deposits	(76,000)	(76,000)	(76,000)
Other payable	(15,967)	–	–
Rental received in advances	(38,000)	–	–
Accrued expenses	(16,000)	(16,900)	(44,100)
Amount due to related company	(27,100,630)	(27,094,615)	(28,740,999)
Amount due to subsidiaries	(182,349,185)	(182,349,185)	(182,349,185)
Tax payable	–	(21,970)	–
	<u>(209,595,782)</u>	<u>(209,558,670)</u>	<u>(211,210,284)</u>
Net current liabilities	<u>(204,842,731)</u>	<u>(204,537,986)</u>	<u>(205,915,731)</u>
Total assets less current liabilities	<u>7,703,707</u>	<u>9,420,684</u>	<u>9,737,538</u>
Equity			
Share capital	10,000	10,000	10,000
Reserves	7,693,707	9,410,684	9,727,538
Equity attributable to owners of Southern	<u>7,703,707</u>	<u>9,420,684</u>	<u>9,737,538</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

4. Consolidated Statement of Changes in Equity

	Share capital	Capital reserve	Statutory reserve (Note 1)	Exchange reserve (Note 2)	Retained profits	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 January 2011	10,000	17,605,813	21,582,526	24,349,275	90,583,503	154,131,117
Profit for the year	-	-	-	-	6,673,807	6,673,807
Dividend paid	-	-	-	-	-	-
Share of associate's other changes in equity	-	-	1,725,594	-	(1,725,594)	-
Others	-	-	-	5,938,082	-	5,938,082
Balance at 31 December 2011	<u>10,000</u>	<u>17,605,813</u>	<u>23,308,120</u>	<u>30,287,357</u>	<u>95,531,716</u>	<u>166,743,006</u>
Balance at 1 January 2012	10,000	17,605,813	23,308,120	30,287,357	95,531,716	166,743,006
Profit for the year	-	-	-	-	44,378,467	44,378,467
Dividend paid	-	-	-	-	-	-
Share of associate's other changes in equity	-	-	12,798,447	-	(12,798,447)	-
Others	-	-	-	910,468	-	910,468
Balance at 31 December 2012	<u>10,000</u>	<u>17,605,813</u>	<u>36,106,567</u>	<u>31,197,825</u>	<u>127,111,736</u>	<u>212,031,941</u>
Balance at 1 January 2013	10,000	17,605,813	36,106,567	31,197,825	127,111,736	212,031,941
Profit for the year	-	-	-	-	51,347,277	51,347,277
Dividend paid	-	-	-	-	-	-
Share of associate's other changes in equity	-	(3,147,154)	15,309,126	-	(12,161,972)	-
Others	-	-	-	7,678,248	-	7,678,248
Balance at 31 December 2013	<u>10,000</u>	<u>14,458,659</u>	<u>51,415,693</u>	<u>38,876,073</u>	<u>166,297,041</u>	<u>271,057,466</u>

Note 1: The statutory reserve represents general reserve and enterprise expansion fund which are set up by the associate (the "Associate") established and operated in the People's Republic of China ("PRC") by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the board of directors of the Associate, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for each year, until when the accumulated balance reaches 50% of the total registered capital of the Associate. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.

Note 2: Exchange differences arising on the translation of the net assets of the Southern Group's foreign operations from their functional currencies to the presentation currency of the Southern Group's financial information are recognised directly in other comprehensive income and accumulated in the translation reserve. Such exchange differences accumulated in the translation reserve will be reclassified to profit or loss on the disposal of foreign operations.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

5. Consolidated Statement of Cash Flows

	<i>Notes</i>	Year ended 31 December		
		2011	2012	2013
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Operating activities				
Net cash inflow from operations	18	156,748	238,000	105,007,160
Income tax (paid)/refund		<u>(9,261)</u>	<u>2,322</u>	<u>(64,400)</u>
Net cash inflow from operating activities		<u>147,487</u>	<u>240,322</u>	<u>104,942,760</u>
Investing activities				
Interest received		1,388	3,877	2,869
Increase in investment in associate		<u>–</u>	<u>–</u>	<u>(104,657,473)</u>
Net cash inflow/(outflow) from investing activities		<u>1,388</u>	<u>3,877</u>	<u>(104,654,604)</u>
Net increase in cash and cash equivalents		148,875	244,199	288,156
Cash and cash equivalents at 1 January		<u>4,592,439</u>	<u>4,741,314</u>	<u>4,985,513</u>
Cash and cash equivalents at 31 December		<u>4,741,314</u>	<u>4,985,513</u>	<u>5,273,669</u>
Analysis of balances of cash and cash equivalents				
Bank balances and cash		<u>4,741,314</u>	<u>4,985,513</u>	<u>5,273,669</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

II NOTES TO THE FINANCIAL INFORMATION OF THE SOUTHERN GROUP

1. GENERAL INFORMATION

Southern Limited ("Southern") is a private limited company incorporated in Hong Kong with its registered office at 18th Floor, Empress Plaza, 17-19 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

The financial information of Southern is presented in Hong Kong dollars ("HK\$"), which is the same as its functional currency.

2. BASIS OF PREPARATION

In preparing the consolidated financial statements, the directors of Southern have given careful consideration to the future liquidity of the Southern Group and Southern in light of the fact that the Southern Group's current liabilities exceeded its current assets by HK\$22,493,546, HK\$22,188,801 and HK\$127,343,583 as at 31 December 2011, 2012 and 2013 respectively and Southern remained at a net current liability position of HK\$204,842,731, HK\$204,537,986 and HK\$205,915,731 as at 31 December 2011, 2012 and 2013 respectively. The Southern Group's current liabilities as at 31 December 2011, 2012 and 2013 included an amount due to related company of approximately HK\$27,100,630, HK\$27,094,615 and HK\$132,518,036 respectively that are repayable on demand. Southern's current liabilities as at 31 December 2011, 2012 and 2013 also include an amount due to fellow subsidiaries of HK\$182,349,185, HK\$182,349,185 and HK\$182,349,185 respectively and an amount due to related company of HK\$27,100,630, HK\$27,094,615 and HK\$28,740,999 respectively that are repayable on demand. Upon completion of the Debt Transfer Agreement to be entered into between Southern Limited, Nanli Power Company Limited, Nantang Power Company Limited, Price Rich Inc., Guangdong Nanhai Holding Investment Co., Ltd. and Foshan Nanhai Jinglong Investment Holding Co., Ltd, the aggregate payable balance of HK\$132,518,036 (together with interests, if any) owed by Southern Limited, Nanli Power and Nantang Power (collectively, the "Debtors") to Jinglong Holding would be legally transferred from the Debtors to Prize Rich. As the completion of the Debt Transfer Agreement has not yet taken place, as at 31 December 2013 the aforesaid payable was not yet discharged and was accounted for in the consolidated net assets of Southern Limited as at 31 December 2013. As the related company and fellow subsidiaries have committed to provide adequate funds to enable the Southern Group and Southern to meet in full its financial obligations as they fall due in the foreseeable future and be able to operate on a going concern basis. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HKFRSs

The principal accounting policies adopted in the preparation of the financial information are set out below. These policies have been consistently applied to all the periods. The financial information has been prepared in accordance with HKFRSs issued by the HKICPA.

The following new/revised HKFRSs have been issued and are mandatory for adoption by Southern for accounting periods beginning on 1 January 2013.

HKFRS 1 (Amendments)	Government Loans
HKFRSs (Amendments)	Annual Improvements to HKFRS 2009-2011
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

The adoption of these new/revised HKFRSs will have no significant impact on the results and the financial position of the Southern Group.

HKFRS 13 Fair Value Measurement

The Southern Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and nonfinancial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Southern Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

The Southern Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Southern Group.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 cycle ⁴
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 cycle ²
HKFRS 9	Financial Instruments ⁵
HKFRS 7 and HKFRS 9 and HKAS 39 (Amendments)	Hedge Accounting and amendments to HKFRS 7, HKFRS 9 and HKAS 39 ⁵
HKFRS 10, HKFRS 12 and HKAS 27(Amendments)	Investment Entities ¹
HKFRS 14	Regulatory Deferral Accounts ³
HKAS 19 (Amendments)	Employee Benefit ²
HKAS 32 (Amendments)	Presentation-offsetting Financial Assets and Financial Liabilities ¹
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non- Financial Assets ¹
HKAS 39 (Amendments)	Financial Instruments: Recognition and measurement-Novation of Derivatives and Continuation of Hedge Accounting of Hedge Accounting ¹
HK(IFRIC) – Int 21	Levies ¹

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ Effective for annual periods beginning on or after 1 January 2016

⁴ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

⁵ No mandatory effective date yet determined but is available for adoption

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

4. SIGNIFICANT ACCOUNTING POLICIES

The preparation of the financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Southern Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 5 and 6 below.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities which are stated at fair values.

Historical cost is generally based on the fair value of consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Southern Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

These policies have been consistently applied throughout the Relevant Periods. The principal accounting policies are set out below.

(a) Basis of consolidation

The financial information incorporate the financial statements of the Southern Group and entities controlled by Southern and its subsidiaries. Control is achieved when Southern:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Southern Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

Consolidation of a subsidiary begins when the Southern Group obtains control over the subsidiary and ceases when the Southern Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Southern Group gains control until the date when the Southern Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of Southern and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of Southern and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Southern Group's accounting policies.

All intra Southern Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Southern Group are eliminated in full on consolidation.

Changes in the Southern Group's ownership interests in existing subsidiaries

Changes in the Southern Group's ownership interests in existing subsidiaries that do not result in the Southern Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Southern Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of Southern.

When the Southern Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Southern Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(b) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to the Southern Group, liabilities incurred by the Southern Group to the former owners of the acquiree and the equity interests issued by the Southern Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or sharebased payment arrangements of the Southern Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the noncontrolling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standards.

When the consideration transferred by the Southern Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Southern Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(c) **Interests in associate**

An associate is an entity over which the Southern Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Southern Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Southern Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Southern Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statements of financial position at cost and adjusted thereafter to recognise the Southern Group's share of the profit or loss and other comprehensive income of the associate. When the Southern Group's share of losses of an associate exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Southern Group's net investment in the associate), the Southern Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Southern Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Southern Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Southern Group reduces its ownership interest in an associate but continues to use the equity method, the Southern Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Southern Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the financial information only to the extent of interests in the associate that are not related to the Southern Group.

(d) Revenue

Revenue is recognised as follows:

(i) *Rental income*

Rental income arising from property let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

(ii) *Interest income*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

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(e) Investment property

Investment property is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property is included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(f) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Southern and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other repairs and maintenance are charged to the profit or loss in the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the following method to allocate their cost to their residual values over their estimated useful lives:

Property	over 50 years on straight line method
Furniture and equipment	20% on reducing balance method

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(g) Impairment of tangible assets other than goodwill

At the end of each reporting period, the Southern Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Southern Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units.

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Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(h) Financial assets

The Southern Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are expected to be settled more than 12 months after the end of each of the reporting periods. These are classified as non-current assets. The Southern Group's loans and receivables comprise "cash and cash equivalents" in the consolidated statements of financial position.

(ii) Recognition and measurement

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becomes probable that the borrower will enter bankruptcy or financial re-organisation; or

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

- the disappearance of an active market for that financial asset because of financial difficulties of the borrower.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Southern Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

(iv) Financial liabilities

Financial liabilities (including other payables, amounts due to related parties and former related parties) are subsequently measured at amortised cost using the effective interest method.

(v) Derecognition

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

For financial liabilities, they are removed from the Southern Group's statement of financial position (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

(i) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Southern Group as lessor

Rental income from operating leases is recognised in the consolidated statements of profit or loss and other comprehensive income on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(j) Other receivables

Other receivables are mainly utility deposit in the ordinary course of business.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

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(l) Borrowings and interest

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incidental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to profit or loss or capitalised as cost of the qualifying assets over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Southern Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the end of reporting period.

Interest on borrowings for the finance of the acquisition, construction or production of fixed assets is:

- (i) incorporated in capital expenditure during the period of time that is required to complete and prepare the assets for its intended use; and
- (ii) charged to finance costs when incurred after commissioning.

(m) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) Current and deferred income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) *Current income tax*

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from "profit (loss) before tax" as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Southern Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each of the reporting period.

(ii) *Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Southern Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Southern Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(o) Related parties

A party is considered to be related to the Southern Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Southern Group;
 - (ii) has significant influence over the Southern Group; or
 - (iii) is a member of the key management personnel of the Southern Group or of a parent of the Group; or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Southern Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Southern Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Southern Group or an entity related the Southern Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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(p) Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as expenses when employees have rendered service entitling them to the contributions.

(q) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than its functional currency (foreign currency) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting financial information, the assets and liabilities of the Southern Group's foreign operations are translated into the presentation currency of the Southern Group using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to noncontrolling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Southern Group's entire interest in a foreign operation, or a partial disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Southern Group are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Southern Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Southern Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

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5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Southern Group's accounting policies, which are described in note 4 above, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

Impairment of property, plant and equipment

The Southern Group reviews for impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less cost of disposal. These calculations required the use of judgements and estimates. Management judgement is required in the area of asset impairments particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less cost of disposal and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessment impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result may affect the Southern Group's financial condition and results of operations.

The Southern Group has invested in a power station for generation of electricity to meet the demand of customers in Taiping, Xiqiao District, Guangdong Province PRC. As the Southern Group expects its generation facilities will continue to be used to provide the electricity supply in the foreseeable future, removal of the generation facilities is remote. As such, an asset retirement obligation has not been recognised upfront in the financial statements in accordance with the requirements of accounting standards.

Useful lives of property, plant and equipment

The Southern Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that are abandoned or sold.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Deferred taxation on investment property

For the purpose of measuring deferred tax liabilities or deferred tax assets arising from investment property that is measured using the fair value model, the directors have reviewed that the Southern Group's investment property portfolios and concluded that the Southern Group's investment property is not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the

investment property over time, rather than through sale. Therefore, in measuring the Southern Group's deferred taxation on investment property, the directors have determined that the presumption that the carrying amounts of investment property measured using the fair value model are recovered entirely through sale is not rebutted. Moreover, the Southern Group's investment property is situated in Hong Kong. As a result, the Southern Group has not recognized any deferred taxes on change in fair value of investment property as the Southern Group is not subject to any incomes taxes on disposal of its investment property situated in Hong Kong according to Hong Kong tax law.

Fair value measurements and valuation processes

Some of the Southern Group's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of Southern has set up a valuation committee, which is headed up by the Chief Financial Officer ("CFO") of Southern, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Southern Group uses market-observable data to the extent it is available, and engages third party qualified valuers to perform the valuation. The CFO works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the valuation model. The CFO reports the valuation committee's findings to the board of directors of Southern at the end of each reporting period and explains the cause of fluctuations in the fair value of the assets and liabilities.

7 CAPITAL RISK MANAGEMENT

The Southern Group manages its capital with a view to maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Southern Group consists of net debt, which comprise amounts due to related parties and former related net of cash and cash equivalents and equity attributable to equity holders of Southern, comprising paid-in capital, reserves and retained profits (accumulated losses).

The directors of Southern review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The Southern Group will balance its overall capital structure through the new share issues as well as issue of new debts or redemption of existing debts, which was subject to discussion and consensus with the Southern Group.

8 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Southern Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Southern Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

(i) Foreign exchange risk

The Southern Group mainly earned revenue and incurred cost in Renminbi ("RMB") and Hong Kong Dollar. The effect of exchange rate fluctuation on earned revenue and incurred cost would be able to offset each other in the business operation of the Southern Group. In past several years, the exchange rates of Renminbi to Hong Kong Dollars kept on increasing till the second half of 2008 when it became stable. The Directors expect that Renminbi's exchange rate will remain stable and will not cause material adverse foreign exchange risk on the Southern Group. Therefore, the Southern Group currently does not have any specific foreign exchange risk hedging need for this matter.

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The carrying amount of the Southern Group's and Southern's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2011	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Liabilities			
Denominated in Renminbi	<u>27,100,630</u>	<u>27,094,615</u>	<u>132,518,036</u>

The following shows the sensitivity analysis of a 5% increase/decrease in RMB against the Hong Kong dollars. The sensitivity analysis includes only RMB dollars denominated monetary items and adjusts their translation at the year and for a 5% change in RMB dollars rates. If there is a 5% increase/decrease in RMB against the Hong Kong currencies, the effect in the profit for the year is as follows:

	2011	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Increase/decrease in profit for the year	<u>1,355,032</u>	<u>1,354,731</u>	<u>6,625,902</u>

(ii) Credit risk

Rental from leasing of investment property are normally received in advance. The credit risk of the Southern Group mainly arises from cash and cash equivalents deposited with financial institutions. The carrying amounts of these balances represent the Southern Group's maximum exposure to credit risk in relation to financial assets.

To mitigate counterparty credit risk, the Southern Group places bank balance with banks of high credit rating in Hong Kong.

(iii) Liquidity risk

The Southern Group regularly monitors current and expected liquidity requirements to ensure that adequate funding is available for operating, investing and financing activities.

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The table below analyses the remaining contractual maturities at the end of each of the reporting periods of the Southern Group's non-derivative financial liability, which are based on contractual undiscounted cash flows:

	Within 1 year <i>HK\$</i>	Between 1 to 2 years <i>HK\$</i>	Between 2 to 5 years <i>HK\$</i>	Over 5 years <i>HK\$</i>	Total <i>HK\$</i>
As at 31 December 2011					
Non-derivative financial liability					
Amounts due to related party	<u>27,100,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,100,630</u>
As at 31 December 2012					
Non-derivative financial liability					
Amounts due to related party	<u>27,094,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,094,615</u>
As at 31 December 2013					
Non-derivative financial liability					
Amounts due to related party	<u>132,518,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,518,036</u>

(iv) Fair value estimation

The carrying amounts of the Southern Group's financial assets and financial liabilities, including cash and bank balances, amount due to related company are approximate their fair values. The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

Fair value measurements recognised in the statements of financial position are measured at fair value on a recurring basis.

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The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Some of the Southern Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period.

Details of the items that are measured at fair value are included in note 13.

9 REVENUE AND SEGMENT INFORMATION

Turnover represents gross rental income from investment property and management fee income for the year.

The Southern Group's principal activities are property investment and its turnover and results are principally derived from investment property located in Hong Kong.

The chief operating decision-maker ("CODM") has been identified as the directors of the Southern Group. The directors review the Southern Group's internal reporting in order to assess performance and allocate resources. For the year ended 31 December 2011, 2012 and 2013, the directors consider that the Southern Group's operations are operated and managed as a single segment – leasing of property. No separate segment information was presented for the Relevant Periods.

Other than the investments in associate, which operated in the People's Republic of China (the "PRC") with carrying amounts of HK\$ 169,666,924, HK\$213,238,882 and HK\$376,605,025 as at 31 December 2011, 2012 and 2013 respectively, all of the Southern Group's assets are located in Hong Kong.

The Southern Group is domiciled in Hong Kong. All of its revenue are generated in Hong Kong and all of its non-current assets other than investment in the associate are located in Hong Kong during the Relevant Periods.

10. PROFIT BEFORE INCOME TAX

	Year ended 31 December		
	2011	2012	2013
	HK\$	HK\$	HK\$
Profit before income tax is stated after charging the following:			
Directors' emoluments	–	–	–
Depreciation	90,184	87,768	85,836
Staff expenses	–	–	–
Auditor's remuneration	8,000	8,000	43,500

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11. INCOME TAX EXPENSES

The Southern Group are subject to the Hong Kong Profits Tax at a rate of 16.5% for the Relevant Periods on estimated assessable profits arising in or derived from Hong Kong.

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Income tax for the year	25,857	24,585	26,180

The tax on the Southern Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Profit before sharing profit of associate and taxation	947,683	1,741,562	343,035
Tax calculated at the corporate income tax rate of 16.5%	156,368	287,358	56,601
Expenses not deductible for tax purposes	208,064	11,702	136,253
Income not taxable for tax purposes	(346,729)	(248,140)	(148,973)
Others	8,154	(26,335)	(17,701)
Total income tax expense	25,857	24,585	26,180

12. PROPERTY, PLANT AND EQUIPMENT

2013	Property <i>HK\$</i>	Furniture and Equipment <i>HK\$</i>	Total <i>HK\$</i>
COST			
At 1 January 2013 and 31 December 2013	3,905,355	507,684	4,413,039
DEPRECIATION			
At 1 January 2013	1,562,142	469,037	2,031,179
Provided for the year	78,107	7,729	85,836
At 31 December 2013	1,640,249	476,766	2,117,015
CARRYING VALUES			
At 31 December 2013	2,265,106	30,918	2,296,024

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

2012	Property	Furniture and Equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
COST			
At 1 January 2012 and 31 December 2012	<u>3,905,355</u>	<u>507,684</u>	<u>4,413,039</u>
DEPRECIATION			
At 1 January 2012	1,484,035	459,376	1,943,411
Provided for the year	<u>78,107</u>	<u>9,661</u>	<u>87,768</u>
At 31 December 2012	<u>1,562,142</u>	<u>469,037</u>	<u>2,031,179</u>
CARRYING VALUES			
At 31 December 2012	<u><u>2,343,213</u></u>	<u><u>38,647</u></u>	<u><u>2,381,860</u></u>
2011	Property	Furniture and Equipment	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
COST			
At 1 January 2011 and 31 December 2011	<u>3,905,355</u>	<u>507,684</u>	<u>4,413,039</u>
DEPRECIATION			
At 1 January 2011	1,405,928	447,299	1,853,227
Provided for the year	<u>78,107</u>	<u>12,077</u>	<u>90,184</u>
At 31 December 2011	<u>1,484,035</u>	<u>459,376</u>	<u>1,943,411</u>
CARRYING VALUES			
At 31 December 2011	<u><u>2,421,320</u></u>	<u><u>48,308</u></u>	<u><u>2,469,628</u></u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

13. INVESTMENT PROPERTY

	In Hong Kong held under medium-term leases HK\$
Fair value of investment property	
As at 1 January 2011	15,000,000
Increase in fair value recognised in the consolidated statement of profit or loss and other comprehensive income	<u>2,100,000</u>
As at 31 December 2011 and 1 January 2012	17,100,000
Increase in fair value recognised in the consolidated statement of profit or loss and other comprehensive income	<u>1,500,000</u>
As at 31 December 2012 and 1 January 2013	18,600,000
Increase in fair value recognised in the consolidated statement of profit or loss and other comprehensive income	<u>900,000</u>
As at 31 December 2013	<u><u>19,500,000</u></u>

All of the Southern Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment property.

Investment property was revalued at their open market value at 31 December 2011, 2012 and 2013 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers, on an open market value basis. This valuation gave rise to a revaluation surplus of HK\$ 2,100,000, HK\$1,500,000 and HK\$900,000 for the year ended 2011, 2012 and 2013 respectively, which has been credited to the consolidated statement of profit or loss and other comprehensive income.

Associated Surveyors & Auctioneers Ltd is a member of the Institute of Valuers, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

There has been no change from the valuation technique used in the prior year. In estimating the fair value measurement of the investment properties, the highest and best use of properties is their current use.

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The following table gives information about how the fair values of the investment property is determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 2) based on the degree to which the inputs to the fair value measurements is observable.

Property	Fair Value Hierarchy	Valuation Technique(s) and Key Input(s)	Significant Observable Inputs
Commercial property in Hong Kong	Level 2	<p>Direct comparison method</p> <p>The key inputs were:</p> <p>(1) saleable floor area of the property; and</p> <p>(2) unit rate (i.e. \$ per square feet).</p> <p>Saleable floor areas of the property was based on developer's sale brochures.</p>	<p>Unit rate was based on direct market comparables and was taken into account of factors such as location, time of transaction, floor level, size, layout, orientation, view, age of building, building quality, etc.</p> <p>Unit rate adopted as at the date of valuation was: HK\$1,209.98/ft²</p>

There were no transfers into or out of Level 2 during the year.

14. INTEREST IN AN ASSOCIATE/OTHER INVESTMENT

	As at 31 December		
	2011 <i>HK\$</i>	2012 <i>HK\$</i>	2013 <i>HK\$</i>
The Company			
At cost unlisted			
Directly held 5% of ownership interest in an associate	18,219,047	18,219,047	19,099,482
The Group			
Carrying value			
At 1 Jan	157,976,861	169,666,924	213,238,882
Share of post-acquisition result and other comprehensive income	11,690,063	43,571,958	58,708,670
Capital injection	—	—	104,657,473
At 31 December	169,666,924	213,238,882	376,605,025

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As 31 December 2011, 2012 and 2013, the Southern Group had interests in the following associate:

Company name	Place and date of incorporation	Registered capital at the date of this report	Total proportion of registered capital held			At the date of this report	Principal activities
			At 31 December				
			2011	2012	2013		
			%	%	%	%	
Nanhai Changhai Power Company Limited 南海長海發電有限公司	The People's Republic of China (the "PRC")	US\$46,215,100	32.636	32.636	32.636	32.636	Operation of a power plant

The summarised financial information in respect of the Southern Group's associate is set out below, representing amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

	As at 31 December		
	2011 <i>HK\$</i>	2012 <i>HK\$</i>	2013 <i>HK\$</i>
Current assets	576,382,075	1,251,692,566	750,419,028
Non-current assets	587,373,426	547,489,722	672,358,838
Current liabilities	(268,308,585)	(350,963,736)	(319,917,902)
Non-current liabilities	(288,647,488)	(719,728,256)	–
	<u>606,799,428</u>	<u>728,490,296</u>	<u>1,102,859,964</u>
	Year ended 31 December		
	2011 <i>HK\$</i>	2012 <i>HK\$</i>	2013 <i>HK\$</i>
Revenue	1,040,361,039	1,133,565,153	1,098,935,605
Profit for the year	<u>17,622,491</u>	<u>130,703,094</u>	<u>156,343,203</u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in Nanhai Changhai Power Company Limited recognised in the Financial Information:

	As at 31 December		
	2011 <i>HK\$</i>	2012 <i>HK\$</i>	2013 <i>HK\$</i>
Net assets of associate	606,799,428	728,490,296	1,102,859,964
Proportion of the Southern Group's ownership interest in the associate	<u>169,666,924</u>	<u>213,238,882</u>	<u>376,605,025</u>

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

15. BANK BALANCES AND CASH

	As at 31 December		
	2011	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Cash at bank and on hand	4,741,314	4,985,513	5,273,669

The carrying amounts of bank balances and cash are denominated in HK\$.

As at 31 December 2011, 2012 and 2013, all of the Southern Group's bank balances are deposited with banks in Hong Kong.

16. AMOUNT DUE TO RELATED COMPANY

	As at 31 December		
	2011	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Amount due to a related company 佛山市南海景隆投資控股 有限公司	27,100,630	27,094,615	132,518,036

The amount due to a related company is unsecured, non-interest bearing and repayable on demand. The amounts due to a related party is all denominated in RMB. As at 31 December 2011, 2012 and 2013, the carrying values of the amount due to a related party approximate their fair values. Upon completion of the Debt Transfer Agreement to be entered into between Southern Limited, Nanli Power, Nantang Power, Prize Rich, Guangdong Nanhai Holding and Jinglong Holding, the aggregate payable balance of HK\$132,518,036 (together with interests, if any) owed by Southern Limited, Nanli Power and Nantang Power (collectively, the "Debtors") to Jinglong Holding would be legally transferred from the Debtors to Prize Rich. As the completion of the Debt Transfer Agreement had not yet taken place as at 31 December 2013, the aforesaid payable was not yet discharged and was accounted for in the consolidated net assets of Southern Limited as at 31 December 2013.

17. SHARE CAPITAL

	As at 31 December		
	2011	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Authorized, issued and fully paid 10,000 ordinary shares of HK\$1 each	10,000	10,000	10,000

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

18. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO NET CASH INFLOW FROM OPERATIONS

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Profit for the year	6,673,807	44,378,467	51,347,277
Adjustment for:			
Interest income	(1,388)	(3,877)	(2,869)
Operating profit	6,672,419	44,374,590	51,344,408
Adjustment for:			
Depreciation of property, plant and equipment	90,184	87,768	85,836
Increase in fair value of investment property	(2,100,000)	(1,500,000)	(900,000)
Income tax expenses	25,857	24,585	26,180
Share of profit of an associate	(5,751,981)	(42,661,490)	(51,030,422)
Operating profit before working capital changes	(1,063,521)	325,453	(473,998)
Decrease/(increase) in trade and other receivables	563	(28,371)	30,537
Increase/(decrease) in trade and other payables	62,707	(53,067)	27,200
Increase/(decrease) in amount due to related company	1,156,999	(6,015)	105,423,421
Net cash inflow from operations	<u>156,748</u>	<u>238,000</u>	<u>105,007,160</u>

19. OPERATING LEASE ARRANGEMENTS

The Southern Group as lessor

The Southern Group's rental income earned from property during the year was approximately HK\$456,000 (2012: HK\$456,000 and 2011: HK\$324,972). The property held has committed tenants for more than one year.

At the end of the reporting period, the Southern Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December		
	2011	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Premises: 17th Floor of Sing-Ho Finance Building, 166-168 Gloucester Road, Hong Kong			
Within one year	456,000	456,000	-
In the second to fifth year inclusive	456,000	-	-

20. RELATED PARTY TRANSACTIONS

Other than those balance disclosed in the note 16 of this report, no compensation was paid or payable to the key management personnel for the reporting periods.

APPENDIX IIA ACCOUNTANT'S REPORT ON THE SOUTHERN GROUP

21 DIVIDEND

No dividend has been proposed or paid by the Southern Group in respect of each of the Relevant Periods.

22 ULTIMATE AND IMMEDIATE HOLDING COMPANY

The ultimate holding company of Southern is *Guangdong Nanhai Holding Investment Co., Ltd. 廣東南海控股投資有限公司, a company incorporated in the PRC. The ultimate holding company of Southern is also the major shareholder of China Investments Holdings Limited which is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Southern or any of its subsidiaries in respect of any period subsequent to 31 December 2013 and up to the date of this report. No dividend or distribution has been declared or made by Southern or any of its subsidiaries in respect of any period subsequent to 31 December 2013

Yours faithfully,

HLM CPA Limited

Certified Public Accountants

Ng Fai Fiona

Practicing Certificate Number P4986

Hong Kong

* For identification purpose only

The following is the text of a report received from the Company's reporting accountant, HLM CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

30 June 2014

The Directors

China Investments Holdings Limited

Dear Sirs,

We report on the financial statements of Nanhai Changhai Power Company Limited 南海長海發電有限公司("Changhai") which comprises the statement of financial position of Changhai as at 31 December 2011, 2012 and 2013, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows of Changhai for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Underlying Financial Information") for inclusion in the circular of China Investments Holdings Limited (the "Company") dated 30 June 2014 (the "Circular") in connection with the proposed acquisition of 32.636% equity interest of Changhai by the Company constituting a major transaction under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Changhai was established in the People's Republic of China (the "PRC") on 22 September 1995 as company with limited liability. It is registered in the form of Sino Foreign Joint Ventures. The registered office of Taiping, Xiqiao, Nanhai, Foshan, Guangdong, China.

The statutory financial statements of Changhai for the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by the following certified public accountants registered in the PRC:

Financial period	Name of auditors
For the year ended 31 December 2011	京都天華會計師事務所有限公司廣東分所
For the year ended 31 December 2012	廣東中天粵會計師事務所有限公司
For the year ended 31 December 2013	佛山市中天華會計師事務所有限公司

For the purpose of this report, the directors of Changhai during the Relevant Periods are responsible for the preparation of the financial statements of Changhai that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by HKICPA. We have not audited any financial statements of Changhai in respect of any period subsequent to 31 December 2013.

The Financial Information of Changhai for the Relevant Periods set out in this report is based on the audited financial statements of Changhai after making such adjustments as we consider appropriate and on the basis set out in Section I to II below.

The Underlying Financial Statements are the responsibility of the directors of Changhai who approved their issue. The directors of China Investments Holdings Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Changhai as at 31 December 2011, 2012 and 2013 and of Changhai's results for the Relevant Periods.

I. FINANCIAL INFORMATION OF CHANGHAI

The following is the financial information of Changhai as at 31 December 2011, 2012 and 2013 and for each of the years ended 31 December 2011, 2012 and 2013 prepared by the directors of Changhai.

1. Statement of Profit or Loss and Other Comprehensive Income

	<i>Notes</i>	Year ended 31 December		
		2011	2012	2013
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	6	865,093	923,550	875,576
Cost of sales		<u>(837,246)</u>	<u>(754,943)</u>	<u>(677,187)</u>
		27,847	168,607	198,389
Other income	7	29,542	35,212	33,408
Selling expenses		(5,323)	(10,543)	(11,492)
Administrative expenses		(18,505)	(20,893)	(32,102)
Finance cost	9	<u>(17,542)</u>	<u>(29,986)</u>	<u>(19,206)</u>
Profit before income tax	10	16,019	142,397	168,997
Income tax expense	11	<u>(1,365)</u>	<u>(35,909)</u>	<u>(44,430)</u>
Profit for the year and total comprehensive income attributable to owners of Changhai		<u>14,654</u>	<u>106,488</u>	<u>124,567</u>

2. Statement of Financial Position

	<i>Notes</i>	As at 31 December		
		2011	2012	2013
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Construction in progress		8,734	2,913	56,329
Property, plant and equipment	13	458,669	439,498	444,557
Leasehold land	14	3,814	3,718	9,240
Loan to fellow subsidiaries	18	10,000	–	20,000
		<u>481,217</u>	<u>446,129</u>	<u>530,126</u>
Current assets				
Inventory – stores and fuel	15	13,661	18,267	24,818
Trade and other receivables	16	71,457	112,480	138,890
Amount due from ultimate holding company	18	–	71,870	308,869
Loan to ultimate holding company	18	–	206,830	–
Amount due from immediate holding company	18	17,718	–	2,243
Loan to fellow subsidiaries	18	62,500	70,000	–
Amount due from fellow subsidiaries	18	227	4	252
Bank balances and Cash	17	306,648	540,506	116,601
		<u>472,211</u>	<u>1,019,957</u>	<u>591,673</u>
Current liabilities				
Bank loans and other borrowings	19	(50,000)	(50,000)	–
Trade and other payables	20	(141,338)	(171,655)	(172,157)
Amount due to immediate holding company	18	–	(11,460)	–
Amount due to fellow subsidiaries	18	(407)	(1,484)	(461)
Income tax payable		(28,072)	(51,388)	(79,623)
		<u>(219,817)</u>	<u>(285,987)</u>	<u>(252,241)</u>
Net current assets		<u>252,394</u>	<u>733,970</u>	<u>339,432</u>
Total assets less current liabilities		<u>733,611</u>	<u>1,180,099</u>	<u>869,558</u>

	<i>Notes</i>	As at 31 December		
		2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
Non-current liabilities				
Loan from immediate holding company	18	–	(500,000)	–
Bank loans and other borrowings	19	<u>(236,480)</u>	<u>(86,480)</u>	<u>–</u>
		<u>(236,480)</u>	<u>(586,480)</u>	<u>–</u>
		<u>497,131</u>	<u>593,619</u>	<u>869,558</u>
Equity				
Share capital	21	211,642	211,642	383,014
Reserves		<u>285,489</u>	<u>381,977</u>	<u>486,544</u>
Equity attributable to owners of Changhai		<u>497,131</u>	<u>593,619</u>	<u>869,558</u>

3. Statement of Changes in Equity

	Share capital	Capital reserve	Statutory reserve (Note1)	Retained profits (Note2)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011	211,642	51,899	60,280	171,446	495,267
Total comprehensive income for the year	-	-	-	14,654	14,654
Dividend paid	-	-	-	(12,790)	(12,790)
Others	-	-	4,396	(4,396)	-
Balance at 31 December 2011	<u>211,642</u>	<u>51,899</u>	<u>64,676</u>	<u>168,914</u>	<u>497,131</u>
Balance at 1 January 2012	211,642	51,899	64,676	168,914	497,131
Total comprehensive income for the year	-	-	-	106,488	106,488
Dividend paid	-	-	-	(10,000)	(10,000)
Others	-	-	31,946	(31,946)	-
Balance at 31 December 2012	<u>211,642</u>	<u>51,899</u>	<u>96,622</u>	<u>233,456</u>	<u>593,619</u>
Balance at 1 January 2013	211,642	51,899	96,622	233,456	593,619
Total comprehensive income for the year	-	-	-	124,567	124,567
Dividend paid	-	-	-	(20,000)	(20,000)
Others	<u>171,372</u>	<u>(7,682)</u>	<u>37,370</u>	<u>(29,688)</u>	<u>171,372</u>
Balance at 31 December 2013	<u><u>383,014</u></u>	<u><u>44,217</u></u>	<u><u>133,992</u></u>	<u><u>308,335</u></u>	<u><u>869,558</u></u>

Note1: Statutory reserve represents general reserve and enterprise expansion fund which are set up by subsidiaries established and operated in the People's Republic of China ("PRC") by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the board of directors of the PRC subsidiaries, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for each year, until when the accumulated balance reaches 50% of the total registered capital of the subsidiary. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.

Note2: Changhai's retained profits as at 31 December 2011, 2012 and 2013 include amounts of approximate RMB57,434,000, RMB81,764,000 and RMB112,733,000 respective which not yet be declared and distributed to the foreign shareholder by the board of directors.

4. Statement of Cash Flows

	<i>Notes</i>	Year ended 31 December		
		2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
Operating activities				
Cash generated from/(used in)				
operating activities	23	98,327	148,236	(53,788)
Tax refund/(paid)		15,202	(12,593)	(15,938)
Interest paid		<u>(17,542)</u>	<u>(29,986)</u>	<u>(19,206)</u>
Net cash generated from/(used in)				
from operating activities		<u>95,987</u>	<u>105,657</u>	<u>(88,932)</u>
Investing activities				
Purchase of property, plant and				
equipment		(56,869)	(24,870)	(117,964)
Purchase of land		–	–	(5,667)
Interest received		9,611	14,510	13,901
Net proceeds from disposal of				
property, plant and equipment		<u>–</u>	<u>2,891</u>	<u>3,035</u>
Net cash used in investing activities		<u>(47,258)</u>	<u>(7,469)</u>	<u>(106,695)</u>
Net cash generated from/(used in)				
before financing activities		<u>48,729</u>	<u>98,188</u>	<u>(195,627)</u>
Financing activities				
Repayment of long-term borrowings		(13,520)	(150,000)	(86,480)
Issue of capital		–	–	171,372
Increase/(decrease) in loan from				
immediate holding company		–	500,000	(500,000)
(Increase)/decrease in loan to ultimate				
holding company		–	(206,830)	206,830
(Increase)/decrease in loan to fellow				
subsidiaries		(72,500)	2,500	50,000
Decrease in bank loan and other				
borrowings		–	–	(50,000)
Dividend paid		<u>(8,884)</u>	<u>(10,000)</u>	<u>(20,000)</u>
Net cash (out)/inflow from financing				
activities		<u>(94,904)</u>	<u>135,670</u>	<u>(228,278)</u>

	<i>Notes</i>	Year ended 31 December		
		2011	2012	2013
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net (decrease)/increase in cash and cash equivalents		(46,175)	233,858	(423,905)
Cash and cash equivalents at 1 January		<u>352,823</u>	<u>306,648</u>	<u>540,506</u>
Cash and cash equivalents at 31 December		<u>306,648</u>	<u>540,506</u>	<u>116,601</u>
Analysis of balances of cash and cash equivalents		<u>306,648</u>	<u>540,506</u>	<u>116,601</u>
Bank balances and cash		<u>306,648</u>	<u>540,506</u>	<u>116,601</u>

II NOTES TO THE FINANCIAL INFORMATION OF CHANGHAI

1 GENERAL INFORMATION

Nanhai Changhai Power Company Limited (“Changhai”) is principally engaged in the generation and sale of electricity.

Changhai is a limited liability company established in the People’s Republic of China (the “PRC”). The address of its registered office is Taiping, Xiqiao, Nanhai, Foshan City, Guangdong Province and the PRC.

The financial information of Changhai is presented in Renminbi (“RMB”) which is the same as its functional currency.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial information are set out below. These policies have been consistently applied to all the periods. The financial information has been prepared in accordance with HKFRSs issued by the HKICPA.

The preparation of the financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying Changhai’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 3 below.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities which are stated at fair values.

Changhai applied HKFRS 1 “First-time Adoption of Hong Kong Financial Reporting Standards” and adopted all HKFRSs issued by the HKICPA which are relevant to and effective for the accounting periods beginning on 1 January 2013 in the preparation of the financial information for the Relevant Periods.

The following new/revised HKFRSs have been issued and are mandatory for adoption by Changhai for accounting periods beginning on 1 January 2013.

HKFRS 1 (Amendments)	Government Loans
HKFRSs (Amendments)	Annual Improvements to HKFRS 2009-2011 cycle
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

The directors of Changhai anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of Changhai in the reporting period of initial application.

Changhai has not early applied the following new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of Changhai.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 cycle ⁴
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 cycle ²
HKFRS 9	Financial Instruments ⁵
HKFRS 7 and HKFRS 9 and HKAS 39 (Amendments)	Hedge Accounting and amendments to HKFRS 7, HKFRS 9 and HKAS 39 ⁵
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities ¹
HKFRS 14	Regulatory Deferral Accounts ³
HKAS 19 (Amendments)	Employee Benefit ²
HKAS 32 (Amendments)	Presentation-offsetting Financial Assets and Financial Liabilities ¹
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non- Financial Assets ¹
HKAS 39 (Amendments)	Financial Instruments: Recognition and measurement-Novation of Derivatives and Continuation of Hedge Accounting of Hedge Accounting ¹
HK(IFRIC) – Int 21	Levies ¹

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ Effective for annual periods beginning on or after 1 January 2016

⁴ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

⁵ No mandatory effective date yet determined but is available for adoption

(b) Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of Changhai's activities, net of discounts and sales related taxes.

(i) Sales of electricity

Revenue is earned and recognised upon transmission of electricity to the customers and the power grid owned by the respective regional or provincial grid companies.

(ii) Heat supply

Revenue is recognised when the heat is delivered to the customers.

(iii) Rental income

Rental income arising from properties let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

(iv) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(c) Property, plant and equipment, construction in progress and leasehold land

Property, plant and equipment are stated at historical cost less depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Changhai and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other repairs and maintenance are charged to the profit or loss in the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Land and building	10 years
Power generating plant and equipment	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

Leasehold land is amortised uniformly over the unexpired term of the lease.

Construction in-progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of power plants. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for the intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss and other comprehensive income.

(d) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, Changhai reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, Changhai estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(e) Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when Changhai becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Changhai's financial assets are classified as loans and receivables (including amounts due from related parties, trade and other receivables, cash and cash equivalents).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period.

These are classified as non-current assets. Changhai's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position. Subsequent to initial recognition, loans and receivables (including other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contracts, such as default or delinquency in interest or principal payments; or
- it become probable that the borrower will enter bankruptcy or financial reorganization or
- the disappearance of an active market for financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities (including trade and other payables, amount due to and loan from ultimate holding company, immediate holding company and amount due to fellow subsidiaries) are subsequently measured at amortised cost using effective interest method.

Derecognition

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

For financial liabilities, they are removed from Changhai statement of financial position (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

(f) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Changhai as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Changhai as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(g) Trade and other receivables

Trade receivables are amounts due from customers for electricity sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer and the normal operating cycle of the business is around 12 months), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(h) Inventory

Inventory comprises stores and coal and fuel which are stated at the lower of cost and net realisable value. Inventory is measured using the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(j) Borrowings and interest

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incidental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to profit or loss or capitalised as cost of the qualifying assets over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless Changhai has an unconditional right to defer settlement of the liabilities for at least 12 months after the end of reporting period.

Interest on borrowings arranged for the finance of the acquisition, construction or production of fixed assets is:

- (i) incorporated in capital expenditure during the period of time that is required to complete and prepare the assets for its intended use and
- (ii) charged to finance costs when incurred after commissioning.

(k) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Current and deferred income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit (loss) before tax" as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Changhai's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each of the reporting period.

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible differences can be utilised. Such deferred tax assets and liabilities are not recognised if the difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where Changhai is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Changhai expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(m) Related parties

A related party is a person or entity that is related to Changhai if:

- (a) A person or a close member of that person's family is related to Changhai if that person:
 - (i) has control or joint control over Changhai;
 - (ii) has significant influence over Changhai; or
 - (iii) is a member of the key management personnel of Changhai or of the parent of Changhai.
- (b) An entity is related to Changhai if any of the following conditions applies:
 - (i) The entity and Changhai are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either Changhai or an entity related to Changhai. If Changhai is itself such a plan, the sponsoring employers are also related to Changhai.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(n) Employee benefits

The employees of Changhai in the PRC are required to participate in defined contribution retirement schemes administered and operated by municipal governments. Changhai contribute funds to the retirement scheme to fund the retirement benefits of the employees which are calculated on certain percentage of the

average employee salary as agreed by the municipal government. Such retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees. Changhai has no further obligations for the actual payment of post-retirement benefits beyond the contributions.

(o) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in Changhai's financial statements in the period in which the dividends are approved by Changhai's board of directors.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Changhai's accounting policies, which are described in note 2, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of property, plant and equipment

Changhai reviews for impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs of disposal. These calculations required the use of judgements and estimates. Management judgement is required in the area of asset impairments particular in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessment impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect Changhai's financial condition and results of operations.

Changhai has been investing in power stations for generation of electricity to meet the demand of customers in Nanhai District. As Changhai expects its generation facilities will continue to be used to maintain the electricity supply in Nanhai District for the foreseeable future, it is our assessment that removal of the generation facilities is remote. As such, an asset retirement obligation has not been recognised upfront in the financial statements in accordance with the requirements of accounting standards.

Useful lives of property, plant and equipment

Changhai's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Provision for income taxes

Changhai is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary difference or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets in the period in which such estimates have been changed.

5 FINANCIAL RISK MANAGEMENT

Financial risk factors

Changhai's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. Changhai's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Changhai's financial performance.

(i) Foreign exchange risk

Since Changhai's mainly operates in the PRC with transactions mainly settled in RMB, the function currency of Changhai, it is not exposed to significant foreign exchange risk.

(ii) Interest rate risk

Changhai's interest rate risk arises from debt borrowings. Borrowings issued at variable rates expose Changhai to cash flow interest rate risk, whilst borrowings issued at fixed rates expose Changhai to fair value interest rate risk. Changhai manages its interest rate risks with a mix between fixed and floating rate borrowings appropriate for its business profile. The percentage of Changhai's borrowings with interest rates fixed to maturity over the reporting periods is as follows:

	As at 31 December		
	2011	2012	2013
Percentage of total borrowings			
with interest fixed to maturity	5.13%-5.91%	5.56%-6.56%	5.4%

The extent of the impact of the movements in interest rates, with all other variables held constant, on Changhai's post-tax profit for the year (as a result of change in interest expense on floating rate borrowings) is shown in the table below:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
If interest rates were higher by:			
Post-tax profit for the year	6.56%	6.08%	6.08%
If interest rates were lower by:			
Post-tax profit for the year	5.67%	6.56%	5.56%

(iii) Credit risk

The credit risk of Changhai mainly arises from cash and cash equivalents, and trade receivables and other receivables and prepayment. The carrying amounts of these balances represent Changhai's maximum exposure to credit risk in relation to financial assets.

Changhai have concentration of credit risk, 70% of the trade receivables as at 31 December 2011, 2012 and 2013 were due from one single customer.

At the end of the reporting period, all Changhai's bank deposits are mainly placed in state-owned banks and certain commercial banks in the PRC that have investment grade ratings. Management believes these financial institutions are of high credit quality and management does not expect any losses arising from non-performance by these counterparties.

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is not significant.

(iv) Liquidity risk

Changhai regularly monitors current and expected liquidity requirements to ensure that adequate funding is available for operating, investing and financing activities.

The table below analyses the remaining contractual maturities at the end of the reporting period of Changhai's non-derivative financial liabilities, which are based on contractual undiscounted cash flows:

	Weighted average interest rate	On demand	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2011								
Non-derivative financial liabilities								
Bank loans and other borrowing								
	5.9%	-	50,000	236,480	-	-	286,480	286,480
Trade and other payables								
	-	141,338	-	-	-	-	141,338	141,338
		<u>141,338</u>	<u>50,000</u>	<u>236,480</u>	<u>-</u>	<u>-</u>	<u>427,818</u>	<u>427,818</u>

	Weighted average interest rate	On demand	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2012								
Non-derivative financial liabilities								
Bank loans and other borrowing								
	6.5%	-	50,000	86,480	-	-	136,480	136,480
Trade and other payables								
	-	171,655	-	-	-	-	171,655	171,655
		<u>171,655</u>	<u>50,000</u>	<u>86,480</u>	<u>-</u>	<u>-</u>	<u>308,135</u>	<u>308,135</u>

	Weighted average interest rate	On demand	Within 1 year	Between 1 to 2 years	Between 2 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2013								
Non-derivative financial liabilities								
Trade and other payables								
	-	172,157	-	-	-	-	172,157	172,157
		<u>172,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>172,157</u>	<u>172,157</u>

(v) **Capital risk management**

The primary objective of Changhai's capital management is to safeguard Changhai's ability to continue as a going concern and maintain a healthy capital ratio to support the business and enhance shareholder value.

Changhai manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, Changhai may adjust the dividend payments to shareholders or raise and repay debts and shareholders' advances. Changhai's capital management objectives, policies or processes were unchanged during each of the reporting years.

Changhai monitors capital using a gearing ratio, this ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the statement of financial position plus net debt.

Changhai's gearing ratios at 31 December 2011, 2012 and 2013 were as follows:

Changhai monitors capital using "total debt to total capital" ratio. Total debt comprises Changhai's bank loans and other borrowings. For the purpose of the calculation of total debt to total capital ratio, shareholders' funds comprise shareholders' advances and shareholders' equity. The total debt to total capital ratios at end of each of the reporting period were as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Total debt	286,480	136,480	–
Shareholders' funds	497,131	593,619	869,558
Total capital	<u>783,611</u>	<u>730,099</u>	<u>869,558</u>
Total debt to total capital ratio	<u>36.56%</u>	<u>18.69%</u>	<u>N/A</u>

(vi) *Fair value estimation*

The carrying amounts of Changhai's financial assets, including cash and bank balances, trade receivables, other receivables and deposits, and financial liabilities, including borrowings and other payables approximate their fair values. The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

6 REVENUE

Turnover represents revenue arising on sales of electricity and heat generated by thermal power plants.

Revenue comprises:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Sales of electricity	619,769	686,709	655,166
Heat supply	245,324	236,841	220,410
	<u>865,093</u>	<u>923,550</u>	<u>875,576</u>

The chief operating decision-maker ("CODM") has been identified as the directors of Changhai. The directors review Changhai's internal reporting in order to assess performance and allocate resources. For the year ended 31 December 2011, 2012 and 2013, the directors consider that Changhai's operations are operated and managed as a single segment – development, operation and management of solar power plants. No separate segment information was presented for the Relevant Periods.

For the year ended 31 December 2011, 2012 and 2013, revenue of approximately RMB403,387,000, RMB466,096,000 and RMB439,250,000 were derived from one single customer.

Changhai is domiciled in the PRC. All of the Changhai's revenue are generated in the PRC and all of its non-current assets are located in the PRC during the Relevant Periods.

7. OTHER INCOME

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Interest income	9,611	14,510	13,901
Rental income	3,019	3,019	2,676
Sales scrap material	16,231	15,605	15,469
Other	681	2,078	1,362
	<u>29,542</u>	<u>35,212</u>	<u>33,408</u>

8. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonus	70,746	76,040	81,818
Pension costs – retirement benefit schemes	82	176	557
	<u>70,828</u>	<u>76,216</u>	<u>82,375</u>
Directors emoluments	1,200	1,106	1,272
	<u>72,028</u>	<u>77,322</u>	<u>83,647</u>

Five highest paid individuals

The five individuals whose emoluments were highest in Changhai for the Relevant Periods are as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Basic salaries and bonus allowances and benefits in kind	<u>1,200</u>	<u>1,106</u>	<u>1,272</u>

9. FINANCE COST

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Interest expenses on			
Bank loans and overdrafts other borrowings			
wholly repayable within five years	17,542	29,986	19,206

10. PROFIT BEFORE INCOME TAX

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Profit before income tax is stated after charging			
the following:			
Staff costs (including Directors' remuneration and			
retirement benefit scheme contribution)	72,028	77,322	83,647
Depreciation and amortization	39,651	44,463	44,375
Loss on disposal of property, plant and equipment	-	2,604	11,128
Auditor's remuneration	58	30	30

11. INCOME TAX EXPENSE

Changhai is established in the PRC and are subject to the China Corporate Income Tax ('CIT') at a rate of 25% for the Relevant Periods on estimated assessable profits arising in or derived from the PRC.

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Income tax for the year	1,365	35,909	44,430

The tax on Changhai's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the PRC as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Profit before income tax	16,019	142,397	168,997
Tax calculated at the corporate			
income tax rate of 25%	4,005	35,599	42,249
Expenses not deductible for tax purposes	-	310	2,181
Income not taxable for tax purposes	(2,640)	-	-
Total income tax expense	1,365	35,909	44,430

12. DIVIDENDS

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Final dividend paid	12,790	10,000	20,000

The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

13. PROPERTY, PLANT AND EQUIPMENT

2013	Machinery and					Office	Total
	Property	equipment	Motor vehicles	Electronic	Air-Conditioner	equipment and others	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2013	280,760	884,287	1,476	77	327	1,613	1,168,540
Additions	-	-	122	33	100	-	255
Transfer from CIP	15,509	48,784	-	-	-	-	64,293
Disposal and write off	(11,281)	(55,643)	-	-	-	(188)	(67,112)
At 31 December 2013	284,988	877,428	1,598	110	427	1,425	1,165,976
DEPRECIATION							
At 1 January 2013	215,731	510,568	994	7	142	1,600	729,042
Provided for the year	2,998	40,990	142	25	70	5	44,230
Eliminated on disposals and write off	(8,893)	(42,772)	-	-	-	(188)	(51,853)
At 31 December 2013	209,836	508,786	1,136	32	212	1,417	721,419
CARRYING VALUES							
At 31 December 2013	75,152	368,642	462	78	215	8	444,557

2012	Machinery and					Office	Total
	Property	equipment	Motor vehicles	Electronic	Air-Conditioner	equipment and others	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2012	278,583	907,203	1,228	3	234	2,216	1,189,467
Additions	-	557	261	74	93	-	985
Transfer from CIP	2,843	26,863	-	-	-	-	29,706
Disposal	(666)	(50,336)	(13)	-	-	(603)	(51,618)
At 31 December 2012	280,760	884,287	1,476	77	327	1,613	1,168,540
DEPRECIATION							
At 1 January 2012	213,073	514,499	939	1	89	2,197	730,798
Provided for the year	3,263	40,972	68	6	53	5	44,367
Eliminated on disposals	(605)	(44,903)	(13)	-	-	(602)	(46,123)
At 31 December 2012	215,731	510,568	994	7	142	1,600	729,042
CARRYING VALUES							
At 31 December 2012	65,029	373,719	482	70	185	13	439,498
2011							
	Property	Machinery and equipment	Motor vehicles	Electronic	Air-Conditioner	Office equipment and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2011 (restated)	279,235	840,485	925	-	225	2,216	1,123,086
Additions	-	5,846	303	3	9	-	6,161
Transfer from CIP	491	60,872	-	-	-	-	61,363
Disposal	(1,143)	-	-	-	-	-	(1,143)
At 31 December 2011	278,583	907,203	1,228	3	234	2,216	1,189,467
DEPRECIATION							
At 1 January 2011 (restated)	210,914	478,323	908	-	49	2,192	692,386
Provided for the year	3,302	36,176	31	1	40	5	39,555
Eliminated on disposals	(1,143)	-	-	-	-	-	(1,143)
At 31 December 2011	213,073	514,499	939	1	89	2,197	730,798
CARRYING VALUES							
At 31 December 2011	65,510	392,704	289	2	145	19	458,669

14. LEASEHOLD LAND

	<i>RMB'000</i>
Cost	40,821
Accumulated amortization	<u>(36,911)</u>
Carrying values at 31 December 2010	<u>3,910</u>
Carrying values at 1 January 2011	3,910
Amortization	<u>(96)</u>
Carrying values at 31 December 2011	<u><u>3,814</u></u>
Cost	40,821
Accumulated amortization	<u>(37,007)</u>
Carrying values at 31 December 2011	<u><u>3,814</u></u>
Carrying values at 1 January 2012	3,814
Amortization	<u>(96)</u>
Carrying values at 31 December 2012	<u><u>3,718</u></u>
Cost	40,821
Accumulated amortization	<u>(37,103)</u>
Carrying values at 31 December 2012	<u><u>3,718</u></u>
Carrying values at 1 January 2013	3,718
Additions	5,667
Amortization	<u>(145)</u>
Carrying values at 31 December 2013	<u><u>9,240</u></u>

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
In the PRC held under medium-term leases	<u>3,814</u>	<u>3,718</u>	<u>9,240</u>

15. INVENTORY – STORES AND FUEL

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Coal	12,620	16,804	23,402
Spare parts and consumables	699	767	937
Fuel oil	342	696	479
	<u>13,661</u>	<u>18,267</u>	<u>24,818</u>

The cost of inventories recognised as operating expenses for the year ended 31 December 2011, 2012 and 2013 amounted to RMB646,564,000, RMB557,534,000 and RMB485,380,000 respectively.

At the end of the reporting period, all inventories were stated at cost.

16. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade receivable	61,552	94,654	127,182
Prepayments	5,802	17,352	7,457
Other receivables	4,103	474	4,251
	<u>71,457</u>	<u>112,480</u>	<u>138,890</u>

Changhai normally grants 30 days credit period to customers. The aging analysis of trade receivable is as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
30 days or below	61,552	94,543	127,026
31 – 90 days	–	111	71
Over 90 days	–	–	85
	<u>61,552</u>	<u>94,654</u>	<u>127,182</u>

Management of Changhai closely monitors the credit quality of trade and other receivables. All the trade and other receivables are denominated in RMB. As at 31 December 2011, 2012 and 2013, the carrying amounts of trade and other receivables approximate their fair values.

As at 31 December 2011, 2012 and 2013, trade and receivable of RMB Nil, RMB111,000 and RMB156,000, respectively, were past due but not impaired. These relate to debtors for whom there is no recent history of default. Aging analysis of trade receivables which are past due but not impaired is as follows:

	As at 31 December		
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
31-90 days	–	111	71
91-365 days	–	–	85
	<u>–</u>	<u>111</u>	<u>156</u>

No provision for impairment of receivables has been made to the statement of profit or loss and other comprehensive income during the Relevant Periods.

The maximum exposure to credit risk at the end of the reporting period is the carrying value of each of the receivable mentioned above. Changhai does not hold any collateral as security.

17. BANK BALANCES AND CASH

	As at 31 December		
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
Cash at bank and on hand	<u>306,648</u>	<u>540,506</u>	<u>116,601</u>

The carrying amounts of bank balances and cash are denominated in RMB.

As at 31 December 2011, 2012 and 2013, Changhai's bank balance of RMB306,648,000, RMB540,504,000 and RMB 116,598,000 respectively are deposited with banks in the PRC. The remittance of these funds out of PRC is subject to the rule and regulations of foreign exchange control promulgated by the PRC government.

18. AMOUNTS DUE FROM/(TO) RELATED PARTIES

	<i>Notes</i>	As at 31 December		
		2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
Amount due from related parties				
Amount due from fellow subsidiaries		227	4	252
Amount due from ultimate holding company	(a)	–	71,870	308,869
Loan to ultimate holding company	(b)	–	206,830	–
Amount due from immediate holding company	(c)	17,718	–	2,243
Loan to fellow subsidiaries	(d)	72,500	70,000	20,000
		<u>90,445</u>	<u>348,704</u>	<u>331,364</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due to related parties				
Amount due to fellow subsidiaries		(407)	(1,484)	(461)
Amount due to immediate holding company		–	(11,460)	–
Loan from immediate holding company	(e)	–	(500,000)	–
		<u>(407)</u>	<u>(512,944)</u>	<u>(461)</u>

The amounts due from/(to) related parties are all denominated in RMB. As at 31 December 2011, 2012 and 2013, the carrying amounts of the amounts due from/(to) related parties approximate their fair values.

Note:

	Nature	Maximum amount outstanding during 2011 RMB'000	Balance as at 31 December 2011 RMB'000	Maximum amount outstanding during 2012 RMB'000	Balance as at 31 December 2012 RMB'000	Maximum amount outstanding during 2013 RMB'000	Balance as at 31 December 2013 RMB'000	Reason for movement	
(a)	Amount due from ultimate holding company*	Centralisation of working capital	-	-	71,870	71,870	308,869	308,869	(i)
(b)	Loan to ultimate holding company#	General financing	-	-	206,830	206,830	206,830	-	(ii)
(c)	Amount due from immediate holding company*	General financing	30,508	17,718	17,718	-	15,378	2,243	(iii)
(d)	Loan to fellow subsidiaries#	General financing	72,500	72,500	72,500	70,000	70,000	20,000	(iv)
(e)	Loan from immediate holding company#	Daily operation for the purchase of raw material	-	-	500,000	500,000	500,000	-	(v)

(i) The increase in amount due from ultimate holding company was due to establishment of centralised fund management arrangement in 2012 by the ultimate holding company which, indirectly, holds 100% of Changhai. The arrangement has been terminated on 31 March 2014.

Changhai has signed a loan agreement with the ultimate holding company in which the amount outstanding as at 31 March 2014 under the central fund management arrangement would be reclassified a short term loan. The terms of the loan would be from 1 April 2014 to 31 October 2014 at an interest rate of 5.4% per annum. The loan principal and interest will be payable on the expiry date of 31 October 2014.

(ii) The decrease in loan to ultimate holding company was due to the full repayment of loan as at 31 December 2013.

(iii) The nature was mainly related to payment of general administrative expenses on behalf of the immediate holding Company, and the movement represented repayment received during the periods.

(iv) The decrease in loan to fellow subsidiaries was mainly due to the repayment of loan of RMB50,000,000 as at 31 December 2013.

(v) The amount was used in the daily operation for the purchase of raw material and had been fully settled as at 31 December 2013.

* *Unsecured and repayable on demand.*

Unsecured, interest bearing and repayable on demand.

19. BANK LOANS AND OTHER BORROWINGS

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Current			
Short-term bank loans	–	50,000	–
Current portion of long-term bank loans	50,000	–	–
	<u>50,000</u>	<u>50,000</u>	<u>–</u>
Non-current			
Long-term bank loans	236,480	86,480	–
	<u>236,480</u>	<u>86,480</u>	<u>–</u>
Total bank loans and other borrowings	<u>286,480</u>	<u>136,480</u>	<u>–</u>

The maturity of the bank loans and other borrowings is as follows:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 1 year	50,000	50,000	–
Between 2 and 5 years	236,480	86,480	–
	<u>236,480</u>	<u>86,480</u>	<u>–</u>
Total	<u>286,480</u>	<u>136,480</u>	<u>–</u>

For the total bank loans and other borrowings, 64% as at 31 December 2011, 55% as at 31 December 2012 were with interest rates fixed to maturity. The loans and borrowings was denominated in RMB.

The effective interest rates at the end of the reporting period were as follows:

	As at 31 December		
	2011	2012	2013
Fixed rate loans	5.13%-5.19%	5.56%-6.56%	5.4%
Variable rate loans	5.67%-6.56%	6.08%-6.56%	5.56%

The carrying amounts of bank loans and other borrowings approximate their fair values. The fair value of long-term bank loans and other borrowings is determined using the expected future payments discounted at market interest rates prevailing at each of the reporting period end.

20. TRADE AND OTHER PAYABLES

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	62,942	61,378	51,376
Licence fee payable	61,513	61,513	61,513
Other payables	16,883	48,764	59,268
	<u>141,338</u>	<u>171,655</u>	<u>172,157</u>

The aging analysis of Changhai's trade payables (based on invoice date) is as follows:

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
30 days or below	39,305	43,812	30,795
31 – 90 days	9,948	358	339
Over 90 days	13,689	17,208	20,242
	<u>62,942</u>	<u>61,378</u>	<u>51,376</u>

The average credit period for purchases of goods is 90 days. Changhai has financial risk management policies in place to ensure that all payables are within the credit timeframe.

Trade and other payables are unsecured, interest free, and repayable on demand. They are mainly denominated in RMB.

As at 31 December 2011, 2012 and 2013, the carrying amounts of trade and other payables of Changhai approximate their fair values.

21. SHARE CAPITAL

	As at 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Registered and paid up capital	383,014	383,014	383,014
Less: return of capital	(171,372)	(171,372)	–
	<u>211,642</u>	<u>211,642</u>	<u>383,014</u>

As at 31 December 2011, 2012 the carrying amounts of registered and paid up capital for the respective shareholders are as follows:

Shareholders:

	Original currency (USD)	Eqv(RMB)	%
佛山市南海景隆投資控股有限公司	31,132,460	256,976,294	67.36
Southern Limited*	2,404,212	20,462,008	5.2
Nanli Power Co. Ltd.*	7,068,600	57,830,448	15.3
Nantang Power Co. Ltd.*	5,609,828	47,744,685	12.14
	<u>46,215,100</u>	<u>383,013,435</u>	<u>100</u>
Less: return of capital			
佛山市南海景隆投資控股有限公司	N/A	88,853,535	N/A
Southern Limited	N/A	692,199	N/A
Nanli Power Co. Ltd.	N/A	34,081,032	N/A
Nantang Power Co. Ltd.	N/A	47,744,685	N/A
	<u>N/A</u>	<u>171,371,451</u>	<u>N/A</u>
Carrying value			
佛山市南海景隆投資控股有限公司	31,132,460	168,122,759	N/A
Southern Limited	2,404,212	19,769,809	N/A
Nanli Power Co. Ltd.	7,068,600	23,749,416	N/A
Nantang Power Co. Ltd.	5,609,828	-	N/A
	<u>46,215,100</u>	<u>211,641,984</u>	<u>N/A</u>

* *Nanli Power Co. Ltd. and Nantang Power Co. Ltd are established in BVI and wholly owned subsidiaries of Southern Limited.*

The return of capital to shareholders represented capital returned to shareholders in accordance with Changhai's joint venture agreement dated 8 August 1995. Such amount represented capital returned to shareholders of which the relevant procedures have not yet been complied with, accordingly such amounts were re-contributed to Changhai in 2013.

22. PLEDGED OF ASSETS

	Year ended 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Pledged of leasehold land	3,814	3,718	-
Pledged of building	<u>4,461</u>	<u>4,461</u>	<u>-</u>

23. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO NET CASH INFLOW FROM OPERATIONS

	Year ended 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Profit for the year	14,654	106,488	124,567
Adjustment for:			
Amortization of leasehold land	96	96	145
Depreciation of property, plant & equipment	39,555	44,367	44,230
Loss on disposal of property, plant & equipment	–	2,604	11,128
Written off of property, plant & equipment	–	–	1,096
Income tax expense	1,365	35,909	44,430
Interest expenses	17,542	29,986	19,206
Interest income	(9,611)	(14,510)	(13,901)
Operating profit before working capital changes	63,601	204,940	230,901
Increase in inventory	(393)	(4,606)	(6,551)
Decrease/(increase) in trade receivable and other receivable	82,959	(41,023)	(22,954)
Increase in amount due from an ultimate holding company	–	(71,870)	(236,999)
(Increase)/decrease in amount due from an immediate holding company	(17,718)	17,718	(2,243)
(Increase)/decrease in amount due from fellow subsidiaries	(227)	223	(248)
Increase/(decrease) in amount due to an immediate holding company	–	11,460	(11,460)
Increase/(decrease) in amount due to fellow subsidiaries	407	1,077	(1,023)
(Decrease)/increase in trade and other payables	(30,302)	30,317	(3,211)
Net cash generated from/(used in) operations	<u>98,327</u>	<u>148,236</u>	<u>(53,788)</u>

24. OPERATING LEASE ARRANGEMENTS

Changhai as lessee

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Minimum lease payments paid under operating leases during the year:			
Premises	4	54	92

At the end of each reporting period, Changhai had outstanding commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Within one year	4	54	769
In the second to fifth year inclusive	11	6	1,513
	<u>15</u>	<u>60</u>	<u>2,282</u>

Changhai as lessor

Changhai's property rental income earned during the year was approximately RMB\$2,676,000 (2012 and 2011: RMB\$3,019,000). All of the properties held have committed tenants for more than one year.

At the end of the reporting period, Changhai had contracted with tenants for the following future minimum lease payments:

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Within one year	929	965	775
In the second to fifth year inclusive	9,941	7,662	3,141
	<u>10,870</u>	<u>8,627</u>	<u>3,916</u>

25. COMMITMENTS

Capital expenditure on fixed assets and leasehold land authorised but not brought into the financial information is as follows:

	As at 31 December		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Contracted but not provided for	<u>41,578</u>	<u>79,719</u>	<u>107,957</u>

26. RELATED PARTY TRANSACTIONS

- (a) The following is a summary of significant related party transactions in addition to those disclosed in Notes 18, which were carried out in the normal course of business during the year ended 31 December 2011, 2012 and 2013:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Receipts from fellow subsidiaries			
Electricity Supply	8,865	9,251	9,590
Operating lease income	2,280	2,280	1,900
Loan interest income	3,128	6,117	2,041
Handling income	—	4	—
	<u> </u>	<u> </u>	<u> </u>
Total receipts from fellow subsidiaries	14,273	17,652	13,531
Receipts from immediate holding company			
Loan interest income	—	—	2,252
	<u> </u>	<u> </u>	<u> </u>
Receipts from ultimate holding company			
Loan interest income	—	—	8,583
	<u> </u>	<u> </u>	<u> </u>
Payment to fellow subsidiaries for			
Purchase of raw material	44,411	22,949	17,815
Handling charges	—	405	1,199
	<u> </u>	<u> </u>	<u> </u>
Total payment to fellow subsidiaries	44,411	23,354	19,014
Payment to ultimate holding company			
Loan interest expense	—	—	22,401
	<u> </u>	<u> </u>	<u> </u>
Payment to immediate holding company			
Loan interest expense	—	15,378	—
	<u> </u>	<u> </u>	<u> </u>
Operating lease expenses	—	—	9
	<u> </u>	<u> </u>	<u> </u>

- (b) Total remuneration of Changhai's directors, who are the key management personnel of Changhai, is as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Directors' remuneration – fees:			
陳小華	298	331	303
鄔海峰	259	–	–
黃子濃	177	214	239
王永哲	232	268	259
溫碧峰	234	269	260
杜偉	–	24	211
	1,200	1,106	1,272

27. ULTIMATE AND IMMEDIATE HOLDING COMPANY

Changhai is 32.636% directly and indirectly owned by Southern Limited, a company incorporated in Hong Kong with limited liabilities and 67.364% owned by “景隆公司”(“景隆”) a company incorporated in PRC with limited liabilities which is responsible for Changhai's day to day operations.

The ultimate holding company of Changhai is *Guangdong Nanhai Holding Investment Co., Ltd. 廣東南海控股投資有限公司, a company incorporated in the PRC. The ultimate holding company of Changhai is also the major shareholder of China Investments Holdings Limited which is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

28. EVENT AFTER THE REPORTING PERIOD

On 1 January 2014, Changhai entered into 20-year co-operative agreements with its immediate holding company “景隆”, in which Changhai has to pay rental expense of approximately RMB150,000 for the coal pier operation and RMB938,000 for the use of staff quarters annually.

In addition, Changhai will receive rental income of approximately RMB1,423,000 for the provision of warehouse to “景隆” annually.

* For identification purpose only

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Changhai or any of its subsidiaries in respect of any period subsequent to 31 December 2013 and up to the date of this report. No dividend or distribution has been declared or made by the Changhai or any of its subsidiaries in respect of any period subsequent to 31 December 2013.

Yours faithfully,

HLM CPA Limited

Certified Public Accountants

Ng Fai Fiona

Practicing Certificate Number P4986

Hong Kong

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following are the unaudited pro forma financial information of the Enlarged Group as if the Acquisition had been completed for the sole purpose of inclusion in this circular, received from HLM CPA Limited, Certified Public Accountants, Hong Kong.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma statement of assets and liabilities of the Enlarged Group (the “Unaudited Pro Forma Financial Information”) for the purpose of illustration only and does not form part of the accountants’ report prepared by the reporting accountants of the Company as set out in Appendix IIA to this circular.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with that of the Group, as set out in the Company’s 2013 Annual Report.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information contained in this circular and the accountants’ report on the Southern Group as set out in Appendix IIA to this circular.

The Unaudited Pro Forma Financial Information has been prepared by the directors for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not reflect the true picture of the financial position of the Enlarged Group had the Acquisition been completed at 31 December 2013 or at any future date.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

HK\$ thousand

	The Group as at 31 December 2013 <i>Note 1</i>	Southern Limited as at 31 December 2013 <i>Note 2</i>	Acquisition of Southern Limited <i>Note 3</i>	Proforma adjustment Proforma Transaction costs related to the transaction <i>Note 4</i>	Debt transfer <i>Note 5</i>	Consolidated adjustments <i>Note 6</i>	Proforma total of the Enlarged Group
Non-current assets							
Investment property	11,422	19,500	-	-	-	-	30,922
Property, plant and equipment	128,349	2,296	-	-	-	10,735	141,380
Investment in associate	-	376,605	-	-	-	83,090	459,695
Investment in subsidiaries	-	-	497,400	-	-	(497,400)	-
	<u>139,771</u>	<u>398,401</u>	<u>497,400</u>	<u>-</u>	<u>-</u>	<u>(403,575)</u>	<u>631,997</u>
Current assets							
Properties held for sales	57,578	-	-	-	-	-	57,578
Inventories	1,590	-	-	-	-	-	1,590
Trade and other receivables	137,584	4	-	-	-	-	137,588
Prepaid income tax	-	16	-	-	-	-	16
Financial assets at fair value through profit and loss	1	-	-	-	-	-	1
Bank balances and cash	378,888	5,274	-	(4,325)	-	-	379,837
	<u>575,641</u>	<u>5,294</u>	<u>-</u>	<u>(4,325)</u>	<u>-</u>	<u>-</u>	<u>576,610</u>
Current liabilities							
Trade and other payables	104,683	120	-	-	-	-	104,803
Amount due to related Company	-	132,518	-	-	(132,518)	-	-
Tax payable	18,671	-	-	-	-	-	18,671
	<u>123,354</u>	<u>132,638</u>	<u>-</u>	<u>-</u>	<u>(132,518)</u>	<u>-</u>	<u>123,474</u>
Net current assets	452,287	(127,344)	-	(4,325)	132,518	-	453,136
Total assets less current liabilities	<u>592,058</u>	<u>271,057</u>	<u>497,400</u>	<u>(4,325)</u>	<u>132,518</u>	<u>(403,575)</u>	<u>1,085,133</u>
Capital and reserves							
Share capital	118,833	10	52,400	-	-	(10)	171,233
Reserves	473,225	271,047	351,070	(4,325)	132,518	(403,565)	819,970
Equity attributable to owners of the company	592,058	271,057	403,470	(4,325)	132,518	(403,575)	991,203
Non current liabilities							
Convertible notes	-	-	93,930	-	-	-	93,930
	<u>592,058</u>	<u>271,057</u>	<u>497,400</u>	<u>(4,325)</u>	<u>132,518</u>	<u>(403,575)</u>	<u>1,085,133</u>

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Notes:

1. The unadjusted audited consolidated statement of financial position of the Group as at 31 December 2013, the unadjusted audited consolidated statement of profit or loss and other comprehensive income and the unadjusted audited consolidated cash flow statement of the Group for the year ended 31 December 2013 are extracted from the published annual report of the Group for the year ended 31 December 2013.
2. The consolidated statement of financial position as at 31 December 2013 and the consolidated statement of profit or loss and other comprehensive income and the consolidated cash flow statement for the year ended 31 December 2013 of Southern Limited were extracted from the accountant's reports of Southern Limited as set out in Appendix IIA to this circular.
3. On 5 June 2014, the Company entered into a sales and purchases agreement ("SPA") with the Vendor to acquire the entire interest of Southern Limited (the "Transaction"). Pursuant to the SPA, the total consideration of the Transaction is HK\$497,400,000, which is satisfied by:
 - (a) HK\$331,168,000 by the issuance of 524,000,000 ordinary shares of the Issuer at the recent average closing price of HK\$0.632 per share of which an amount of HK\$52,400,000 is credited to the share capital at par value of HK\$0.10 per share of the Company and remaining HK\$278,768,000 is credited to the share premium of the Company;
 - (b) HK\$166,232,000 by the issuance of convertible bonds by the Issuer. Based on a separate valuation report dated 30 June 2014 prepared by the independent valuer, Peak Vision Appraisals Limited, the fair value of the liability component of convertible bonds was estimated to be HK\$93,930,000, and is recorded under non-current liabilities as convertible notes. The fair value of the equity component of convertible bonds was estimated to be HK\$72,302,000 and is recorded under equity as reserves.
4. The adjustment represents expenditures incurred directly in connection with the Transaction including financial advisor fees, legal fees, printing costs, accountants' fees and other related expenses to be borne by the Group of approximately HK\$4,325,000. The adjustment has no continuing effect to the consolidated statement of financial position of the Enlarged Group but will be reflected in the consolidated statement of profit or loss and other comprehensive income of the Enlarged Group in the year these expenses are actually incurred.
5. Pursuant to an agreement signed by Southern Limited, Nanli Power, Nantang Power, Prize Rich, Guangdong Nanhai Holding and Jinglong Holding on 6 June 2014, the total debts of approximately 132,518,000 and the related interest due to Jinglong Holding by Southern Limited, Nanli Power and Nantang Power would be legally transferred to Prize Rich. Accordingly, such transfer of debts would be treated as a deemed contribution by owners to Southern Group and is recognised in reserves under equity.
6. Upon completion of the Transaction, Southern Limited will become a wholly owned subsidiary of the Group. the identifiable assets and liabilities of the Southern Limited will be accounted for in the Unaudited Pro Forma Financial Information at fair value under the purchase method of accounting in accordance with HKFRS 3 (Revised). For the purpose of the Unaudited Pro Forma Financial Information, the directors of the Company have assumed the fair values of the identifiable assets and liabilities of the Southern Limited to be the same as their carrying amounts as at 31 December 2013, except for the following assets:

Based on separate valuation reports dated 30 June 2014 prepared by the independent valuer, Associated Surveyors & Auctioneers Limited, the fair value of the leasehold properties for own use of the Southern Limited is estimated to be approximately HK\$13,000,000. The fair value surplus of the leasehold properties for own use of the Southern Limited of HK\$10,735,000 is reflected as property, plant and equipment.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

The directors of the Company have estimated the fair value of the investment in associate to be approximately to HK\$459,695,000 which represents 32.636% of the estimated fair value of the Project Company to be approximately HK\$1,408,552,000. The fair value surplus of the investments in associate is the difference of HK\$83,090,000 between the fair value of the investments in associate of HK\$459,695,000 and the carrying amount of the investments in associate of HK\$376,605,000.

The Directors are of the view that the Consideration of HK\$497.4 million for the acquisition of 100% of Southern Limited to be fair and reasonable. Given that Southern Limited has various assets and liabilities which are unrelated to the Project Company, the Directors has arrived at the fair value of 32.636% the Project Company based on the following calculation:

	<i>HK\$'000</i>
The Consideration	497,400
Less: Market value of the Properties	(32,500)
Less: Leasehold improvement on the Properties	(31)
Less: Total current assets of Southern Limited as at 31 December 2013	(5,294)
Add: Total current liabilities of Southern Limited as at 31 December 2013*	120
	459,695

* *No adjustment for the amount due to related company is made as it has been taken into consideration by the Debt Transfer Agreement (as if it had been completed)*

Based on the above, the Directors consider that the fair value of 100% of the Project Company is approximately HK\$1,408 million (being HK\$459.7 million / 32.636%).

The fair value of the net identifiable assets of the Southern Group of HK\$497,400,000 is the sum of the carrying amounts of the net identifiable assets of the Southern Group of HK\$271,057,000, the transfer of debt liabilities of HK\$132,518,000, the fair value surplus of the leasehold properties of HK\$10,735,000, and the fair value surplus of the investments in associates of HK\$83,090,000 while the investment cost of the Southern Group is the consideration of HK\$497,400,000. No excess amount of the investment cost of Southern Group over the fair value of the net identifiable assets of the Southern Group is recognised as goodwill arising from the Transaction of the Southern Group.

The adjustments also include consolidation entries for the elimination of investment cost of the Southern Group and share capital and reserve of the Southern Limited.

7. No other adjustments have been made to reflect any trading result or other transactions of the Group and Southern Limited entered into subsequent to 31 December 2013. Unless otherwise stated, the adjustments above do not have a recurring effect.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

2. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report on the unaudited pro forma financial information of the Enlarged Group prepared for the purpose of incorporation in this circular, received from the reporting accountants, HLM CPA Limited.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: info@hlm.com.hk

30 June 2014

The Board of Directors
China Investments Holdings Limited
Unit 601, Tsim Sha Tsui Centre,
66 Mody Road,
Tsimshatsui,
Kowloon,
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Investments Holdings Limited (the "Company", together with its subsidiaries are referred to as the "Group") and Southern Limited, (and collectively the Group and Southern Limited form the "Enlarged Group") as prepared by the directors for illustrative purpose only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2013, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-4 of the Company's circular dated 30 June 2014, in connection with the proposed acquisition of the Southern Limited (the "Transaction") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in notes 1 to 7 on pages III-3 to III-4.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 31 December 2013 as if the Transaction had taken place as at 31 December 2013. As part of this process, the audited consolidated statement of financial position of the Group as at 31 December 2013 has been extracted by the directors from the annual report of the Company for the year ended 31 December 2013 dated 13 March 2014 and the audited financial information of Southern Limited as at 31 December 2013 has been extracted by the directors from the accountants' report on Southern Limited as set out in Appendix IIA to the circular.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

REPORTING ACCOUNTANTS' RESPONSIBILITIES

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

OPINION

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

HLM CPA Limited
Certified Public Accountants
Ng Fai Fiona
Practicing Certificate Number P4986
Hong Kong

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS ON THE SOUTHERN GROUP AND THE PROJECT COMPANY

Pledge of assets

As at 31 December 2011, 2012 and 2013, the Southern Group did not have any pledged assets.

2. MANAGEMENT DISCUSSION AND ANALYSIS ON THE PROJECT COMPANY

Set out below is the management discussion and analysis on the Project Company for the three years ended 31 December 2011, 2012 and 2013.

Operating results

The Project Company is principally engaged in the generation and sale of electricity and heat.

Revenue

For the year ended 31 December 2012, the revenue of the Project Company amounted to approximately RMB923.6 million, representing an increase of approximately RMB58.5 million or 6.8% compared to the year ended 31 December 2011. Such increase was attributable to the increase in revenue from the sale of electricity from approximately RMB619.8 million for the year ended 31 December 2011 to approximately RMB686.7 million for the year ended 31 December 2012, which was partially offset by the slight decrease in the supply of heat from approximately RMB245.3 million for the year ended 31 December 2011 to approximately RMB236.8 million for the year ended 31 December 2012. The increase in revenue from the sale of electricity was mainly due to a slight increase in demand for electricity and increase in average selling price of electricity. Based on information provided from the management of the Project Company, for the years ended 31 December 2011 and 2012, the Project Company supplied approximately 1,064.1 million kw.h and approximately 1,175.1 million kw.h of power respectively (representing an increase of approximately 10.4%), and approximately 1.27 million tons and approximately 1.31 million tons of heated steam respectively (representing an increase of approximately 3.1%). The increase in demand for heated steam of approximately 3.1% was offset by the decrease in average unit selling price of steam of approximately 6.5%, leading to the slight overall decrease in the revenue from the supply of heat.

For the year ended 31 December 2013, the revenue of the Project Company amounted to approximately RMB875.6 million, representing a decrease of approximately RMB48.0 million or 5.2% compared to the year ended 31 December 2012. Such decrease was attributable to both the decrease in revenue from the sale of electricity from approximately RMB686.7 million for the year ended 31 December 2012 to approximately RMB655.2 million for the year ended 31 December 2013, and the decrease in the supply of heat from approximately RMB236.8 million for the year ended 31 December 2012 to approximately RMB220.4 million for the year ended 31 December 2013. For the year ended 31 December 2013, the Project Company supplied approximately 1,099.3 million kw.h of power and approximately 1.34 million tons of steam, representing a decrease of approximately 6.5% and an increase of approximately 2.3%, respectively, as compared to prior year. The decrease in the supply of electricity was mainly due to repair and maintenance work being conducted on the Project

Company's power plant between 2012 and 2013. The increase in demand for heated steam of approximately 2.3% was offset by the decrease in average unit selling price of steam of approximately 9% leading to the slightly overall decrease in the revenue from the supply of heat.

Overall, the revenue of the Project Company was relatively stable for the three years ended 31 December 2011, 2012 and 2013, with year-on-year upward/downward fluctuation of within 7%, which is comparable to its industry players. Such stable revenue trend is a direct result of the stable demand of electricity from the Project Company's customers during the three years ended 31 December 2011, 2012 and 2013.

Cost of sales

For the year ended 31 December 2012, the cost of sales of the Project Company amounted to approximately RMB754.9 million, representing a decrease of approximately RMB82.3 million or 9.8% compared to the year ended 31 December 2011. Such decrease, despite the increase in revenue during the year, was mainly attributable to the decreasing trend in coal price in the PRC from 2011 to 2012. The average coal price in the PRC decreased from an average of RMB619 per tonne in 2011 to approximately RMB533 per tonne in 2012, representing a decrease of approximately 13.9%, which was generally in line with the percentage decrease in the cost of sales of the Project Company during the year.

For the year ended 31 December 2013, the cost of sales of the Project Company amounted to approximately RMB677.2 million, representing a decrease of approximately RMB77.7 million or 10.3% compared to the year ended 31 December 2012. Such decrease was mainly attributable to the decreasing trend in coal price in the PRC from 2012 to 2013 and the decrease in revenue of 5.2% in 2013. The average coal price in the PRC decreased from an average of RMB533 per tonne in 2012 to approximately RMB450 per tonne in 2013, representing a decrease of approximately 15.6%, which was generally in line with the percentage decrease the cost of sales of the Project Company during the year.

Gross profit

Due to the continuous decreasing trend in coal price in the PRC as mentioned above from 2011 to 2012, and from 2012 to 2013, the cost of sales of the Project Company was at a decreasing trend despite the relatively stable trend of the revenue of the Project Company during the three years ended 31 December 2011, 2012 and 2013. As a result, the Project Company's gross profit was at an increasing trend from approximately RMB27.8 million to RMB168.6 million to RMB198.4 million, representing gross profit margins of approximately 3.2% to 18.3% to 22.7%, for the three years ended 31 December 2011, 2012 and 2013, respectively. Such increase in gross profit margin of the Project Company, which was largely attributable to the decreasing trend of coal price in the PRC, is comparable to its industry players.

Other income

For the year ended 31 December 2012, other income of the Project Company amounted to approximately RMB35.2 million, representing an increase of approximately RMB5.7 million or 19.3% compared to the year ended 31 December 2011. Such increase was mainly attributable to the increase in interest income from approximately RMB9.6 million for the year ended 31 December 2011 to approximately RMB14.5 million for the year ended 31 December 2012. Such interest income was mainly derived from loans to related companies and deposits in banks.

For the year ended 31 December 2013, other income of the Project Company amounted to approximately RMB33.4 million, with a decrease of approximately RMB1.8 million or 5.1% compared to the year ended 31 December 2012. Such decrease was mainly attributable to the decrease in interest income from approximately RMB14.5 million for the year ended 31 December 2012 to approximately RMB13.9 million for the year ended 31 December 2013, Such interest income was mainly derived from loans to related companies and deposits in banks.

Selling expenses

For the year ended 31 December 2012, selling expenses of the Project Company amounted to approximately RMB10.5 million, representing an increase of approximately RMB5.2 million or 98.1% compared to the year ended 31 December 2011. Such increase was mainly attributable to the increase in sales tax and sub-charges.

For the year ended 31 December 2013, selling expenses of the Project Company amounted to approximately RMB11.5 million, representing an increase of approximately RMB1.0 million or 9.5% compared to the year ended 31 December 2012. Such increase was mainly attributable to the increase in repair and maintenance expenses.

Administrative expenses

For the year ended 31 December 2012, administrative expenses of the Project Company amounted to approximately RMB20.9 million, representing an increase of approximately RMB2.4 million or 13.0% compared to the year ended 31 December 2011. Such increase was mainly attributable to the increase in loss on disposal of property, plant and equipment.

For the year ended 31 December 2013, administrative expenses of the Project Company amounted to approximately RMB32.1 million, representing an increase of approximately RMB11.2 million or 53.6% compared to the year ended 31 December 2012. Such increase was mainly attributable to the increase in loss on disposal of property, plant and equipment, which amounted to approximately RMB8.0 million.

Finance cost

For the year ended 31 December 2012, finance costs of the Project Company amounted to approximately RMB30.0 million, representing an increase of approximately RMB12.5 million or 71.4% compared to the year ended 31 December 2011. Such increase was mainly attributable to the increase in the loan from related company.

For the year ended 31 December 2013, finance costs of the Project Company amounted to approximately RMB19.2 million, representing a decrease of approximately RMB10.8 million or 36.0% compared to the year ended 31 December 2012. Such decrease was mainly attributable to the decrease in interest expenses as a result of the reduction in outstanding amount of bank loan (which had been fully repaid as at 31 December 2013).

Income tax expense

Income tax expense of the Project Company amounted to approximately RMB1.4 million, RMB35.9 million and RMB44.4 million for the three years ended 31 December 2011, 2012 and 2013, respectively. Income tax expense of the Project Company consists of corporate income tax in the PRC, and the Project Company is subject to a corporate income tax rate of 25%. Excluding the effect from non-deductible expenses and non-taxable income, the income tax expense was in line with profit before tax for the corresponding years. The effective tax rate was approximately 8.8% (relatively low effective tax rate was due to a portion of the income not being taxable), 25.2% and 26.3% for the years ended 31 December 2011, 2012 and 2013, respectively.

Net profit

For the year ended 31 December 2012, net profit of the Project Company amounted to approximately RMB106.5 million, representing an increase of approximately RMB91.8 million or 624.5% compared to the year ended 31 December 2011. Such increase was mainly attributable to the increase in revenue which mainly resulted from the increase in volume of electricity supplied of approximately 10.4% and the decrease in cost of sales which was mainly attributable to the decrease in average coal price of approximately 13.9% during the year as mentioned above, which gave rise to a higher gross profit. As a result, gross profit margin increased from approximately 3.2% for the year ended 31 December 2011 to 18.3% for the year ended 31 December 2012.

For the year ended 31 December 2013, net profit of the Project Company amounted to approximately RMB124.6 million, representing an increase of approximately RMB18.1 million or 17.0% compared to the year ended 31 December 2012. Such increase was mainly attributable to the percentage decrease in cost of sales being greater than the percentage decrease in revenue during the year as mentioned above, which gave rise to a higher gross profit. As a result, gross profit margin increased from approximately 18.3% for the year ended 31 December 2012 to 22.7% for the year ended 31 December 2013.

Treasury policies

The Project Company generally financed its operation with internally generated resources and equity and/or debt financing activities. All financing methods will be considered so long as such methods are suitable and beneficial to the Project Company. Cash and bank deposits of the Project Company are in RMB.

Liquidity and financial resources

As at 31 December 2012, the cash and cash equivalents of the Project Company amounted to approximately RMB540.5million, which represented an increase of approximately RMB233.9 million or 76.3% as compared to approximately RMB306.6 million as at 31 December 2011. Such increase was mainly attributable to the net cash generated from operating and financing activities (net cash generated from financing activities mainly included a significant increase in loan from immediate holding company during the year) which was partially offset by the net cash used in investing activities, which mainly included the purchase of property, plant and equipment.

As at 31 December 2013, the cash and cash equivalents of the Project Company amounted to approximately RMB116.6 million, which represented a decrease of approximately RMB423.9 million or 78.4% as compared to approximately RMB540.5million as at 31 December 2012. Such decrease was mainly attributable to the net cash used in operating, investing and financing activities. Net cash used in operating activities mainly included the increase in trade receivables and increase in amount due from ultimate holding company, net cash used in investing activities mainly included the purchase of property, plant and equipment, and net cash used in financing activities mainly included the repayment of bank loans and a loan from immediate holding company.

The carrying amounts of all cash and cash equivalents of the Project Company are denominated in RMB.

Commitments

As at 31 December 2011, 2012 and 2013, the capital commitments of the Project Company relating to fixed assets and leasehold land amounted to approximately RMB41.6 million, RMB79.7 million and RMB108.0 million, respectively.

As at 31 December 2011, 2012 and 2013, the Project Company had no material operating lease commitments.

Capital structure

As at 31 December 2011, 2012 and 2013, the total liabilities of the Project Company amounted to approximately RMB456.3 million, RMB872.5 million and RMB252.2 million, respectively, and the total equity attributable to owners of the Project Company amounted to approximately RMB497.1

Pledge of assets

As at 31 December 2011 and 2012, the Project Company's pledged of assets amount to approximately RMB8.3 million, and RMB 8.2 million respectively. As at 31 December 2013, the Project Company did not have any pledged of assets.

Intercompany balance

As at 31 December 2013, the Project Company had an amount due from its ultimate holding company of approximately RMB309 million. The balance arose from the establishment of a centralised fund management arrangement in 2012 by the ultimate holding company which, indirectly, holds 100% of the Project Company. Such arrangement had already been terminated on 31 March 2014. The Project Company has signed a loan agreement with the ultimate holding company in which the amount outstanding as at 31 March 2014 under the central fund management arrangement would be reclassified a short term loan. The terms of the loan would be from 1 April 2014 to 31 October 2014 at an interest rate of 5.4% per annum. The loan principal and interest will be payable on the expiry date of 31 October 2014.

The following is the text of a report prepared for the purpose of incorporation in the circular received from Associated Surveyors & Auctioneers Limited, an independent valuer, in connection with its opinion of market values of the properties as at 31 March 2014.



Associated Surveyors & Auctioneers Ltd.
協聯估值及拍賣行有限公司

Surveyors ♦ Valuers ♦ Estate Consultants & Agents ♦ Arbitrator ♦ Auctioneers
地產測量師 • 估值師 • 地產顧問及代理 • 仲裁師 • 拍賣師

地產代理(公司)牌照號碼: C-011889

30 June 2014

The Board of Directors

China Investments Holdings Limited
Unit 601, Tsim Sha Tsui Centre
66 Mody Road, Tsim Sha Tsui
Kowloon, Hong Kong

Dear Sirs,

We refer to the instruction of China Investments Holdings Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) for us to value the property interests of various properties in Hong Kong and the People’s Republic of China (the “PRC”) to be acquired by the Company. The scope of valuation has been determined by reference to the property list provided by the management of the Group. We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary to support our opinion on the market values of the property interests as at 31 March 2014 (the “Valuation Date”) for the purpose of incorporation in the circular of the Company dated 30 June 2014 in relation to a major transaction of the Company.

Our valuations of the property interests are made on the basis of the “Market Value” in accordance with the “HKIS Valuation Standards (2012 Edition)” published by The Hong Kong Institute of Surveyors (“HKIS”). In the HKIS Valuation Standards, the Market Value is defined as:

“The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

In valuing Properties (1) to (3), we consider that Direct Comparison Approach is the most appropriate valuation method in assessing the Market Values of the properties. This approach makes reference to comparable transactions as available in the relevant market within the same locality. Within the locality of each property, we have identified and selected comparables with similar characteristics. We consider that the comparables selected are the most appropriate ones for our further analysis. In our valuations, appropriate adjustments and analysis are considered in terms of differences in location, size, floor level, building quality, etc. between the selected comparables and the subject property.

In valuing of Property (4), we consider that Depreciated Replacement Cost (“DRC”) Approach is the most appropriate valuation method in assessing the Market Value of the property. This approach is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements less allowance for physical deterioration and all relevant forms of obsolescence and optimisation. Because of the characteristics of the property being valued, we note that there is lack of market transaction and comparable of this type of property. Hence, the DRC Approach is used in our valuation for this property. When using the DRC Approach, we have assumed that (i) the reported market value only applies to the whole of the complex as a unique interest, and no piecemeal transaction of the complex is assumed; and (ii) the property being valued is subject to adequate potential profitability of the business having due regard to the total assets employed.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values. Our valuations are based on the assumption that the properties are sold in the open market without being affected by any deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would affect the value of the properties. In valuing the properties, we have assumed that the owner of the properties is entitled to free and uninterrupted use of the properties for the whole of the un-expired term as granted and have the rights to sell, mortgage, charge or otherwise dispose of its interests in the properties to any third parties without payment of any additional premium or substantial fee to government authorities.

In valuing Properties (1) to (3), we have caused searches in the Land Registry of Hong Kong. However, we have not verified ownership of the properties nor the existence of any lease amendments which does not appear on the copies handed to us. All registration details disclosed herewith are for reference only. No responsibility regarding legal title to the properties is assumed in this report.

We have been provided with copies of the title documents relating to Property (4). However due to the nature of the land registration system in the PRC, we cannot cause searches to verify ownership and encumbrances or to ascertain the subsequent amendments, if any, which may not appear on the copies handed to us. As we are not a legal professional, we are not in a position to ascertain the legal title of the property. In valuing the property in the PRC, we have relied on the legal opinions provided by the PRC legal adviser of the Group, King & Land Law Firm (廣東君厚律師事務所), in respect of the title of the property and other matters in relation to the property.

In valuing the properties, we have assumed that the owner of the property owns a valid and enforceable title of the property (freely assignable) and is entitled to free and uninterrupted use of the property for the whole of the un-expired term as granted. We assumed that all premiums payable have already paid.

We have relied to a considerable extent on the information given by the Company. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also been advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

The site inspection was conducted by Mr. Leslie Wong (MHKIS) on 7 March, 3 & 4 April 2014. We have inspected the exterior and, where possible, the interior of the properties. However, we have not conducted soil investigation or building survey to ascertain whether the condition of land and facilities are fit for future occupation. We are not able to report whether the property is free of rot, infestation or any other structural defect. We have not carried out tests on any building services either. In our valuation, we have assumed that there is no unauthorised alteration & additions, soil contamination or pollution. We have not carried out detailed land survey or on-site measurements to verify the legal lot boundaries, site area and floor areas of the properties, but have assumed that various lot boundaries and areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximations. The management of the Company and interested party in the property should conduct their due diligence works on land survey and building survey aspects. No responsibility from our part is assumed on these aspects.

We were advised by the instructing party that the Group does not have any intention to sell these properties, therefore the amount of tax liabilities would not be quantifiable nor crystallized. Should disposal of the property be conducted, the potential tax liabilities arising for the PRC properties will include the sales tax (5.0% on the transaction price), land appreciation tax (varies from 30% to 60% on the appreciation depending on the ratio of the appreciation to the original cost of the property) and regional surtax (approximately 0.6% on the transaction price). For the property interests situated in Hong Kong, potential taxes that could arise on the disposal of the property interests are Ad Valorem Stamp Duty (Property 1-3), Buyer's Stamp Duty (Property 1) and profit tax (16.5%).

The property interests have been valued in Hong Kong dollar ("HK\$"). In valuing the property in PRC, the adopted exchange rate was the prevailing rate as at the Valuation Date, being per HK\$1 per RMB 0.79.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (2012 Edition) published by The Hong Kong Institute of Surveyors. The valuations have been prepared by us as an external valuer who is competent in performing the valuations.

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
For and on behalf of
Associated Surveyors & Auctioneers Limited
Wong Chi Wai
Registered Professional Surveyor (General Practice)
Associate Director

Note: Mr. Wong Chi Wai is a Registered Professional Surveyor (General Practice) and a member of the Hong Kong Institute of Surveyors. He has over 17 years of experience in valuation of properties in Hong Kong, Macau and the PRC.

Associated Surveyors & Auctioneers Limited
Unit 3, 26/F., Honour Industrial Centre
6 Sun Yip Street, Chai Wan, Hong Kong

SUMMARY OF VALUATION**GROUP I – PROPERTIES HELD AND OCCUPIED BY THE SOUTHERN LIMITED IN HONG KONG AND VALUED ON MARKET VALUE BASIS**

Property	Market Value as at 31 March 2014
1. Flat A7 on 2nd Floor of Block A Yan On Building No.1 Kwong Wa Street Kowloon	HK\$6,500,000
2. Unit No. 1 on 14th Floor President Commercial Centre 608 Nathan Road Kowloon	HK\$6,500,000
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	Sub-Total: HK\$13,000,000

GROUP II – PROPERTY HELD BY THE SOUTHERN LIMITED FOR INVESTMENT IN HONG KONG AND VALUED ON MARKET VALUE BASIS

Property	Market Value as at 31 March 2014
3. 17th Floor Sing-Ho Finance Building Nos.166/168 Gloucester Road Hong Kong	HK\$19,500,000
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	Sub-Total: HK\$19,500,000

GROUP III – PROPERTY HELD AND OCCUPIED BY THE NANHAI CHANGHAI POWER COMPANY LIMITED (“NANHAI CHANGHAI”) UNDER LONG-TERM TITLE CERTIFICATES IN THE PRC AND VALUED ON MARKET VALUE BASIS

Property	Market Value as at 31 March 2014
4. A factory complex located at Taiping City District, Taiping Village and Rengang Village Xiqiao Town Nanhai District Foshan City Guangdong Province The PRC	HK\$287,300,000
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	Sub-Total: HK\$287,300,000
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	GRAND TOTAL: HK\$319,800,000
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VALUATION CERTIFICATE

GROUP I – PROPERTIES HELD AND OCCUPIED BY THE SOUTHERN LIMITED IN THE HONG KONG AND VALUED ON MARKET VALUE BASIS

Property (1)

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2014
Flat A7 on 2nd Floor of Block A Yan On Building No.1 Kwong Wa Street Kowloon	The property is a residential flat on 2nd floor of a 28-storey composite building of reinforced concrete construction completed in 1974.	According our inspection, the property was for residential usage by the company's own use as at the date of inspection.	HK\$6,500,000
12/5400th shares of and in Kowloon Inland Lot No. 9889 (the "Lot")	The saleable area of the property is approximately 774 sq.ft. (71.90 sq.m.). The property is held under Conditions of Exchange No. UB9967 for a term of 75 years and renewable for further 75 years commencing from 8th August 1904. The Government Rent payable for the Lot is HK\$378 per annum.		

Notes:

- (1) The registered owner of the property is Southern Limited registered vide Memorial No. UB5219650 dated 2nd March 1992.
- (2) The property is zoned as "Residential (Group A)" under Draft Mong Kok Outline Zoning Plan No. S/K3/30.

Property (2)

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2014
Unit No. 1 on 14th Floor President Commercial Centre 608 Nathan Road Kowloon	The property is an office unit on 14th floor of a 22-storey office building (including one basement level) of reinforced concrete construction completed in 1975.	According our inspection, the property was for office usage by the company's own use as at the date of inspection.	HK\$6,500,000
2/320th shares of and in the Remaining Portion of Kowloon Inland Lot No. 7061 The Remaining Portion of Kowloon Inland Lot No. 7062 and the Remaining Portion of Kowloon Inland Lot No. 7063 (the "Lot")	The saleable area of the property is approximately 500 sq.ft. (46.45 sq.m.). The property is held under a Government Lease for a term of 75 years and renewable for further 75 years commencing from 28th January 1907. The Government Rent payable for the Lot is HK\$504 per annum.		

Notes:

- (1) The registered owner of the property is Southern Limited registered vide Memorial No. UB5274003 dated 3rd April 1992.
- (2) The property is zoned as "Commercial" under Draft Mong Kok Outline Zoning Plan No. S/K3/30.

GROUP II – PROPERTIES HELD BY THE SOUTHERN LIMITED FOR INVESTMENT IN THE HONG KONG AND VALUED ON MARKET VALUE BASIS

Property (3)

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2014
17th Floor Sing-Ho Finance Building Nos.166/168 Gloucester Road Hong Kong	The property is an office unit on 17th floor of a 25-storey office building of reinforced concrete construction completed in 1981.	According to the instructing party, the property is subject a tenancy for the period from 1 January 2014 to 31 December 2016 at a monthly rental of HK\$44,250 per month.	HK\$19,500,000
16/460th shares of and in The Remaining Portion of Section C of Marine Lot No. 440 The Remaining Portion of Section F of Marine Lot No. 440 and The Remaining Portion of Marine Lot No. 440 (the “Lot”)	The saleable area of the property is approximately 1,209.98 sq.ft. (112.41 sq.m.). The property is held under a Government Lease for a term of 99 years and renewable for further 99 years commencing from 1st July 1927. The Government Rent payable for the Lot is HK\$22.48 per annum.	The property was occupied for office usage as at the date of inspection.	

Notes:

- (1) The registered owner of the property is Southern Limited registered vide Memorial No. UB8403280 dated 10th May 2001.
- (2) The property is zoned as “Commercial” under Draft Wan Chai Outline Zoning Plan No. S/H5/27.

GROUP III – PROPERTY HELD AND OCCUPIED BY THE TARGET COMPANY UNDER LONG-TERM TITLE CERTIFICATES IN THE PRC AND VALUED ON MARKET VALUE BASIS

Property (4)

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 March 2014
A factory complex located at Taiping City District, Taiping Village and Rengang Village Xiqiao Town Nanhai District Foshan City Guangdong Province The PRC	<p>The property comprises 22 parcels of adjoining lands having a total site area of approximately 151,194.11 sq.m. with 24 various major buildings and structures erected thereon.</p> <p>The major buildings and structures including workshops, ancillary office buildings and other supporting facilities of single to 4-storey and having a total gross floor area of approximately 52,282.45 sq.m. are erected thereon. The major buildings and structures were completed in various years between 1987 and 2013.</p> <p>The land use rights of the property were granted till 8 July 2063, the latest, for industrial uses. (<i>See Note (1) below</i>).</p> <p>During our inspection, we noticed that there were property under construction (“CIP”) . (<i>See Notes (3) below</i>).</p>	According to the instructing party, the property is owner-occupied for power generating, storage, ancillary office and other supporting purposes.	HK\$287,300,000

Notes:

- (1) According to 22 various State-owned Land Use Rights Certificates issued by the Nanhai People's Government of Foshan, the legally interested party in 22 parcels of land having a total site area of approximately 151,194 sq.m. is Nanhai Changhai.
- (2) According to 24 various Realty Title Certificates issued by the Bureau of Housing and Urban-rural Development of Foshan, the legally interested party in 24 various buildings of the property having a total gross floor area of approximately 52,282.45 sq.m. is Nanhai Changhai.
- (3) According to our site inspection in March 2014, we noted that there was property under construction ("CIP"). According to the management of the Company, this CIP was substantially completed and fit for occupation. We are given to understand that Nanhai Changhai is in the process of applying Realty Title Certificate(s) for this CIP which is expected to be received within 2014. In our valuation, we have taken into the account of the cost incurred for this CIP as at the Valuation Date.
- (4) In our valuation, we have taken into account of the buildings and structures as mentioned in Note (3) above and have assumed that they could be freely transferred together with the lands and other buildings (as mentioned in Notes (1) and (2) above) as an integrated interest without further encumbrances/premium.
- (5) According to a copy of the Enterprise Legal Business Licence dated 4 May 2012, Nanhai Changhai is a limited company (Sino-foreign cooperation) for an operational period commencing from 22 September 1995 to 22 September 2022.
- (6) According to the legal opinion prepared by the PRC legal advisor of the Group, the following is noted:
 - (i) Nanhai Changhai has obtained the legal land use rights of the property and the ownership of the building;
 - (ii) Nanhai Changhai has the right to use, transfer, lease, mortgage the property; and
 - (iii) The property is not subject to any undertaking, seizure or limitation on its rights.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, 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.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows: –

Authorised:

3,000,000,000 Shares	HK\$300,000,000
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Issued and fully paid up:

1,188,329,142 Shares	HK\$118,832,914.2
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All the Shares rank pari passu in all respects, including as to dividends, voting and capital.

There has been no increase in the number of issued shares of the Company since 31 December 2013 and up to the Latest Practicable Date. As at the Latest Practicable Date, the Company does not have any options, warrants, derivatives or other securities that carry a right to subscribe for or which are convertible into Shares.

3. MARKET PRICES OF SHARES

The closing prices of the Shares quoted on the Stock Exchange (i) at the end of each of the calendar months during the period commencing 6 months preceding 5 June 2014, being the date of the Announcement and ending on the Latest Practicable Date; (ii) on 4 June 2014, being the last business day immediately preceding the date of the Announcement; and (iii) on the Latest Practicable Date were as follows:

Date	Closing price per Share <i>HK\$</i>
31 December 2013	0.55
30 January 2014	0.54
28 February 2014	0.59
31 March 2014	0.66
30 April 2014	0.58
30 May 2014	0.60
4 June 2014 (being the last trading day immediately preceding the date of the Announcement)	0.61
Latest Practicable Date	0.60

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing 6 months preceding 5 June 2014, being the date of the Announcement, and ending on the Latest Practicable Date were HK\$0.73 on 11 March 2014 and HK\$0.48 on 11 December 2013, respectively.

4. DIRECTORS' INTERESTS

As at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules.

5. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) or corporations had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Interests in the Company

Names	Number of Shares	Notes	Capacity	Approximate percentage of total issued share capital
廣東南海控股投資有限公司 (Guangdong Nanhai Holding Investment Co., Ltd.*)	349,217,178	1	Corporate interest	29.39%
Leung Siu Fai	151,610,779	2	Corporate interest	12.76%
Mighty Management Limited	151,610,779	2	Beneficial owner	12.76%
Nam Keng Van Investment Company Limited	121,864,487	3	Beneficial owner	10.26%
Cui Guo Jian	121,864,487	3	Corporate interest	10.26%
Pu Jian Qing	121,864,487	3	Corporate interest	10.26%

Notes:

1. These 349,217,178 shares were held by Prize Rich which was wholly-owned by 廣東南海控股投資有限公司 (Guangdong Nanhai Holding Investment Co., Ltd.*).
2. These 151,610,779 shares were held by Mighty Management Limited which was wholly-owned by Mr. Leung Siu Fai.
3. These 121,864,487 shares were held by Nam Keng Van Investment Company Limited which was wholly-owned by Mr. Cui Guo Jian and Mr. Pu Jian Qing equally.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company was aware of any other person (not being a Director or chief executive of the Company) or corporation who had an interest or short position in the Shares or underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. As at the Latest Practicable Date, none of the Directors was also a director or employee of the Company's substantial Shareholders.

* for identification purpose only

6. SHAREHOLDINGS AND DEALINGS DISCLOSED PURSUANT TO THE TAKEOVERS CODE

- (a) As at the Latest Practicable Date:
- (i) save as disclosed in the section headed “Substantial Shareholders’ interests” in this appendix, Prize Rich held no Shares, convertible securities, warrants, options and derivatives of the Company;
 - (ii) none of the directors of Prize Rich was interested in any Shares, convertible securities, warrants, options and derivatives of the Company;
 - (iii) of the persons acting in concert with Prize Rich owned or controlled any Shares, convertible securities, warrants, options and derivatives of the Company;
 - (iv) the Company held no shares, convertible securities, warrants, options and derivatives of Prize Rich;
 - (v) none of the Directors was interested in any shares, convertible securities, warrants, options and derivatives of the Company and of Prize Rich;
 - (vi) no Shares, convertible securities, warrants, options and derivatives of the Company was owned or controlled by any subsidiary of the Company or by a pension fund of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code;
 - (vii) no Shares, convertible securities, warrants, options and derivatives of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
 - (viii) none of the Directors had any beneficial shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code) in the Company and all the Directors will not be entitled to cast any vote at the SGM in relation to the Acquisition Agreement or the Whitewash Waiver;
 - (ix) there were no Shares, convertible securities, warrants, options and derivatives of the Company which the Company or the Directors has/have borrowed or lent.
- (b) During the period beginning 6 months prior to 5 June 2014, being the date of the Announcement, and ending on the Latest Practicable Date:
- (i) save for the Acquisition Agreement, neither Prize Rich nor any persons acting in concert with it had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company;

- (ii) none of the directors of Prize Rich had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company;
- (iii) the Company had not dealt for value in any shares, convertible securities, warrants, options and derivatives of Prize Rich;
- (iv) none of the Directors had dealt for value in any shares, convertible securities, warrants, options and derivatives of Prize Rich;
- (v) none of the Directors had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company;
- (vi) none of the Company's subsidiaries, pension fund of any member of the Group or adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code but excluding exempt principal traders had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company;
- (vii) no fund manager (other than exempt fund managers) connected with the Company had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company which were managed on a discretionary basis; and
- (viii) there were no Shares, convertible securities, warrants, options and derivatives of the Company which the Prize Rich or parties acting in concert with it has borrowed or lent.

7. VOTING ON THE WHITEWASH WAIVER

- (a) As at the Latest Practicable Date, no person had, prior to the posting of this circular, irrevocably committed himself/herself/itself to vote for or against the Acquisition or the Whitewash Waiver.
- (b) Only the Independent Shareholders will be entitled to vote on the resolutions to approve the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the SGM.
- (c) Save as disclosed in the section headed "Substantial Shareholders' interests" in this appendix, Prize Rich, its ultimate beneficial owners and parties acting in concert with any of them do not currently hold and will not, at the time of the SGM hold, any Shares and Prize Rich will abstain from voting on any of the resolutions.

8. ARRANGEMENTS IN CONNECTION WITH THE ACQUISITION

- (a) As at the Latest Practicable Date, save for the Acquisition Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) between Price Rich or any person acting in concert with it and any Director, recent Director, Shareholder or recent Shareholder of the Company which had any connection with or dependence upon the Acquisition and/or the Whitewash Waiver.

- (b) As at the Latest Practicable Date, there was no agreement, arrangement or understanding existing whereby any securities to be acquired pursuant to the Acquisition will be transferred, charged or pledged to any other persons.
- (c) As at the Latest Practicable Date, no benefit would be given to any Director as compensation for loss of office or otherwise in connection with the Acquisition and/or the Whitewash Waiver.
- (d) As at the Latest Practicable Date, there was no agreement or arrangement between any Director of the Company and any other person which is conditional on or dependent upon the outcome of the Acquisition and/or the Whitewash Waiver or otherwise connected with the Acquisition and/or the Whitewash Waiver.
- (e) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and Prize Rich or any person acting in concert with Prize Rich and accordingly, no such person had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company during the period beginning 6 months prior to 5 June 2014, being the date of the Announcement, and ending on the Latest Practicable Date.
- (f) As at the Latest Practicable Date, there was no agreement or arrangement to which Prize Rich is a party which relate to the circumstances in which Prize Rich may or may not invoke or seek to invoke a condition to the transactions contemplated under the Acquisition Agreement or the Whitewash Waiver, nor any such agreement or arrangement the consequences of Prize Rich so invoking or seeking to invoke a condition to such transactions would result in any break fees being payable.
- (g) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code.
- (h) As at the Latest Practicable Date, no material contract had been entered into by Prize Rich in which any Director had a material personal interest.

9. LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance pending or threatened against the Company or any member of the Enlarged Group or to which the Company or any member of the Enlarged Group is, or may become, a party.

10. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December 2013, the date to which the latest published audited consolidated financial statements of the Group were made up.

11. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

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

12. DIRECTORS' SERVICE CONTRACTS**Service contracts/letters of appointment with the Company**

As at the Latest Practicable Date, each of the following executive Directors had entered into service contracts with the Company and each of the following independent non-executive Directors had entered into letters of appointment with the Company, the terms and conditions of the employment/appointment are summarized below:

Name of Director	Date of service contract/letter of appointment	Term	Prevailing annual remuneration	Termination notice period or payment in lieu of notice
<i>Executive Directors</i>				
You Guang Wu	20 December 2012	1 February 2013 to 31 January 2016	HK\$1,244,000	one month
Su Wenzhao	23 January 2014	26 February 2014 to 25 February 2017 (note 1)	HK\$1,080,000	one month
Huang Zhihe	13 August 2013	5 August 2013 to 4 August 2015	salary of RMB260,000 plus director's fee of HK\$130,000 (note 2)	one month
Wang Xin	1 May 2014	1 May 2014 to 30 April 2016 (note 3)	salary of RMB260,000 plus director's fee of HK\$130,000	one month

Name of Director	Date of service contract/letter of appointment	Term	Prevailing annual remuneration	Termination notice period or payment in lieu of notice
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Each of the executive Directors is entitled to discretionary bonus determined by the Board at its discretion by reference to his/her performance and the results of the business of the Company.

Independent non-executive Directors

Chan Kwok Wai	20 September 2012	22 September 2012 to 21 September 2014	RMB70,000	N/A
Chen Da Cheng	20 September 2012	22 September 2012 to 21 September 2014	RMB70,000	N/A
Deng Hong Ping	13 March 2014	6 April 2014 to 5 April 2016 (note 4)	RMB70,000	N/A

Notes: –

- (1) As the previous term of the service contract of Su Wenzhao had expired on 25 February 2014, the term of his service contract was extended for additional three years on 23 January 2014.
- (2) The annual salary and the annual director's fee of Huang Zhihe were increased from RMB230,000 to RMB260,000 and from HK\$108,000 to HK\$130,000, respectively, with effect from 1 April 2014.
- (3) As Wang Xin was appointed as a Director with effect from 1 May 2014, her service contract was entered with the Company on 1 May 2014.
- (4) As the previous term of the letter of appointment of Deng Hong Ping had expired on 5 April 2014, the term of his letter of appointment was extended for additional two years on 13 March 2014.

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation) nor save as disclosed above, has any of the Directors entered into any service contract with any member of the Group or associated companies which are in force and (i) are fixed term contracts with more than 12 months to run irrespective of the notice period; or (ii) are continuous contracts with a notice period of 12 months or more; or (iii) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months before 5 June 2014, the date of the Announcement.

13. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competed or was likely to compete, whether directly or indirectly, with the business of the Group.

14. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Enlarged Group) were entered into by members of the Enlarged Group within the two years immediately preceding the date of the Announcement and up to and including the date of issue of this circular and is or may be material:—

- (a) the auction confirmation letter dated 31 January 2013 entered into between 佛山市公聯拍賣有限公司, an auction company approved and wholly owned by the PRC Government, and 佛山市順德區森澳貿易有限公司, a company established in the PRC, in respect of the disposal by 佛山市南海康盛木業有限公司 and 佛山市南海佳順木業有限公司 (being wholly-owned subsidiaries of the Company) to 佛山市順德區森澳貿易有限公司 of certain equipment and machines formerly used in respect of the Group's former and discontinued business in manufacturing medium density fibreboards, at the consideration of RMB11,800,000, further details of which were set out in the announcement of the Company dated 1 February 2013;
- (b) the joint venture agreement executed by 廣東省粵科金融集團有限公司 (Guangdong Technology Financial Group Co., Ltd), CIH Finance Investments Holdings Limited (being wholly-owned subsidiary of the Company), 廣東群興玩具股份有限公司 (Guangdong Qunxing Toys Joint-Stock Co., Ltd) and 中南恒展集團有限公司 (Centenio Group Co., Ltd.) on 17 January 2014 for the establishment of the joint venture company 廣東粵科融資租賃有限公司 (Guangdong Financial Leasing Co., Ltd.) to engage in finance leasing business in Guangdong, the PRC. The initial registered capital of the joint venture company was RMB620,000,000 of which RMB155,000,000, representing 25% of the total registered capital, would be contributed by CIH Finance Investments Holdings Limited, further details of which were set out in the announcement of the Company dated 17 January 2014 and circular of the Company dated 11 February 2014;
- (c) the Acquisition Agreement; and
- (d) the Debt Transfer Agreement.

15. EXPERTS' QUALIFICATIONS AND CONSENTS

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

Name	Qualification
Octal Capital Limited	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Associated Surveyors & Auctioneers Limited	property valuer
HLM CPA Limited	Certified Public Accountants
King & Land Law Firm	PRC lawyers

Each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter or opinion as set out in this circular and references to its names in the form and context in which they appear in this circular.

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

As at the Latest Practicable Date, none of the experts above had any interest, direct or indirect, in any asset which since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

16. GENERAL

- i. The secretary of the Company is Mr. Lo Tai On, who is a member of the Hong Kong Institute of Certified Public Accountants.
- ii. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.
- iii. The Company's head office and principal place of business in Hong Kong is at Unit 601, Tsim Sha Tsui Centre, 66 Mody Road, Tsimshatsui, Kowloon, Hong Kong.
- iv. The branch share registrar of the Company is Tricor Progressive Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- v. Prize Rich is a wholly-owned subsidiary of Guangdong Nanhai Holding and Guangdong Nanhai Holding is a wholly-owned subsidiary of the Vendor. The registered address of Prize Rich is 263 Main Street, P.O. Box 2196, Road Town, Tortola, British Virgin Islands. The directors of Prize Rich are 繆遠華 (MIAO Yuanhua), 吳向能 (WU Xiangneng) and 何焯輝 (HE Zhuohui). The registered address of Guangdong Nanhai Holding is No.15 Tianyou Third Road, Guicheng, Nanhai District, Foshan City, China. The directors of Guangdong Nanhai Holding are 李志斌 (LI Zhibin*), 林耀棠 (LIN Yaotang*), 麥銳年 (MAI Ruinian*), 王文勝 (WANG Wensheng*) and 姚傑聰 (YAO Jiecong*).
- vi. The present intention of Prize Rich is to continue the existing business of the Company upon Completion and to retain the existing employees of the Company and of its subsidiaries. There is no present intention to introduce any major changes to the business and/or the fixed assets of the Company. Prize Rich believes that the proposed transaction will take the development of the Company to a new dimension with the added investment.
- vii. The English language text of this circular shall prevail over the Chinese language text in case of inconsistency.

17. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of the following documents will be available for inspection (i) at the principal place of business of the Company in Hong Kong at Unit 601, Tsim Sha Tsui Centre, 66 Mody Road, Tsimshatsui, Kowloon, Hong Kong during normal business hours; (ii) on the Company's website at <http://chinainvestments.quamir.com>; and (iii) on the website of the SFC at www.sfc.hk from the date of this circular up to and including the date of the SGM:–

- (a) the memorandum of association and bye-laws of the Company;
- (b) the memorandum and articles of association of Prize Rich;
- (c) the letter from the Board to the Shareholders, the text of which is set out on pages 6 to 30 of this circular;
- (d) the annual reports of the Company for each of the financial years ended 31 December 2011, 31 December 2012 and 31 December 2013 respectively;
- (e) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 31 of this circular;
- (f) the letter from Octal Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 32 to 77 of this circular;
- (g) the service contracts and appointment letters referred to in the section headed "Directors' Service Contracts" in this appendix;

* For identification purpose only

- (h) the written consents referred to in the paragraph headed “Experts’ Qualifications and Consents” in this appendix;
- (i) the accountant’s report of HLM CPA Limited dated 30 June 2014 on the financial information of the Southern Group, the text of which is set out in Appendix IIA to this circular;
- (j) the accountant’s report of HLM CPA Limited dated 30 June 2014 on the financial information of the Project Company, the text of which is set out in Appendix IIB to this circular;
- (k) the letter from HLM CPA Limited dated 30 June 2014 in respect of the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (l) the valuation report of Associated Surveyors & Auctioneers Limited dated 30 June 2014, the text of which is set out in Appendix V to this circular;
- (m) the material contracts referred to in the section headed “Material Contracts” in this appendix;
- (n) a circular issued by the Company on 11 February 2014;
- (o) this circular; and
- (p) the letter from Crosby Securities Limited stating that they have given and have not withdrawn their consent to the issue of this circular with the inclusion of their name in the form and context in which they appear in this circular.

NOTICE OF THE SGM



CHINA INVESTMENTS HOLDINGS LIMITED 中國興業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 132)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT a special general meeting (“SGM”) of China Investments Holdings Limited (the “Company”) will be held at the Luxembourg Room II, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 16 July 2014 at 10:30 a.m. to consider and if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:–

ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) the conditional sale and purchase agreement (the “**Acquisition Agreement**”, a copy of which has been produced before the meeting marked “**A**” and initialed by the chairman of the meeting for identification purpose) dated 5 June 2014 entered into between China Investments Limited (as purchaser), a wholly-owned subsidiary of the Company, 佛山市南海區公有資產管理委員會辦公室 (Office of the Nanhai District of Foshan City Public Assets Administration Commission*) (as vendor), 陳小華 (Chen Xiaohua*), 黃子濃 (Huang Zinong*), 王永哲 (Wang Yongzhe*) and Prize Rich Inc. (“**Prize Rich**”) in relation to the sale and purchase of the entire issued share capital of Southern Limited and all transactions contemplated thereunder and in connection therewith be and are hereby approved, confirmed and ratified;
- (b) the allotment and issue to Prize Rich of 524,000,000 Consideration Shares (as defined in the circular of the Company dated 30 June 2014 (the “**Circular**”, a copy of which has been produced before the meeting marked “**B**” and initialed by the chairman of the meeting for the purpose of identification)) credited as fully paid-up at the issue price of HK\$0.632 per Consideration Share, as part consideration for the Acquisition (as defined in the Circular) pursuant to the Acquisition Agreement be and is hereby approved;
- (c) the issue to Prize Rich of the Convertible Bonds (as defined in the Circular) in the principal amount of HK\$166,232,000 at the initial conversion price (subject to adjustment) of HK\$0.76 per Conversion Share (as defined in the Circular) as part consideration for the Acquisition (as defined in the Circular) pursuant to the Acquisition Agreement and the execution, performance and implementation of the terms and

* For identification purpose only

NOTICE OF THE SGM

conditions of the Convertible Bonds and all matters in relation thereto (including without limitation the exercise, non-exercise, waiver or adjustment of any rights or provisions thereunder) be and is hereby approved;

- (d) any director of the Company (the “**Director**”) be and is hereby authorised to allot and issue new shares of the Company which may fall to be issued pursuant to the terms and conditions of the Convertible Bonds to the relevant holder(s) of the Convertible Bonds; and
- (e) any Director, or if affixation of the common seal is necessary, any two Directors or any one Director and the secretary of the Company, be and is/are hereby authorised for and on behalf of the Company to execute all such documents and agreements and do all such acts and things, including but without limitation to the execution of all such documents under common seal where applicable, as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of or giving effect to the Acquisition Agreement and the transactions contemplated thereunder.”

2. “**THAT:**

- (a) subject to and conditional on the passing of resolution no.1 as set out in this notice of meeting, the waiver granted or to be granted pursuant to Note 1 of the Notes on Dispensations from Rule 26 of The Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”) to Prize Rich and persons acting in concert with it from the obligation to make a mandatory offer for all the securities of the Company not already owned or agreed to be acquired by them which would otherwise arise under Rule 26.1 of the Takeovers Code as a result of Prize Rich being allotted and issued the Consideration Shares (as defined in the Circular) be and is hereby approved; and
- (b) any Director be and is hereby authorised for and on behalf of the Company to execute all such documents and do all such acts or things as he/she may in his/her absolute discretion consider to be necessary, desirable, appropriate or expedient to implement or given effect to or in connection with the Whitewash Waiver.”

By Order of the Board
China Investments Holdings Limited
YOU Guang Wu
Chairman

Hong Kong, 30 June 2014

Head Office and Principal Place of Business:
Unit 601, Tsim Sha Tsui Centre
66 Mody Road
Tsimshatsui
Kowloon, Hong Kong

NOTICE OF THE SGM

Notes:

1. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company but must attend the meeting in person to represent you.
2. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be lodged with the principal place of business of the Company at Unit 601, Tsim Sha Tsui Centre, 66 Mody Road, Tsimshatsui, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the proxy form shall not preclude any member from attending and voting at the meeting if the member so wishes and in such event, the proxy form shall be deemed to be revoked.
3. Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the meeting, the vote of the such holder so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall be deemed joint holders thereof.