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RYKADAN CAPITAL LIMITED

宏基資本有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2288)

MAJOR TRANSACTION

FORMATION OF JOINT VENTURE

AND

ACQUISITION OF 70% INTERESTS IN POWER CITY

A letter from the board of directors of Rykadan Capital Limited (the “Company”) is set out on pages 10 to 53 of this circular.

31 October 2012

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DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares (representing 70% shareholding interest in Power City) by Kings Haul from Fine Elite pursuant to the terms and conditions of the SP Agreement
“Acquisition Completion”	the completion of the Acquisition in accordance with the provisions of the SP Agreement which took place on 14 August 2012 (for the avoidance of doubt, this does not include the Buy-Out Completion)
“Acquisition Completion Accounts”	the unaudited financial statements of the Target Group as at the Acquisition Completion Date
“Acquisition Completion Date”	14 August 2012, the date of the Acquisition Completion
“Actual Consideration”	the amount being the Project value of RMB4,300 per sq.m. multiplied by the gross floor area of 52,304.07 sq.m. of the building, less the Actual Net Liabilities and the minority interest of the Local Partner, and multiplied by 70%, being RMB58,097,428
“Actual Net Liabilities”	the total liabilities of the Target Group on a consolidated basis minus the total assets (excluding the Land and the Project) of the Target Group on a consolidated basis as at the Acquisition Completion Date, being RMB112,104,409
“Agreed Amount”	the HK\$ equivalent to RMB33,964,010, the amount released from the Escrow Amount on the Acquisition Completion Date, of which RMB19,649,892 formed part payment of the Consideration and RMB14,314,118 formed part payment of the Kings Haul Additional Payment
“Agreed Period”	7 months or any extended period commencing from the date of the payment of the Escrow Amount by Kings Haul as described in the section headed “The SP Agreement – Terms of arrangement for payment” in the Letter from the Board
“Asset Management Agreement”	the asset management agreement dated 1 August 2012 entered into between Bestlinkage and KLR Shanghai in relation to the appointment of KLR Shanghai as the asset manager of the Project

DEFINITIONS

“associate(s)”	has the meaning given to it by the Listing Rules
“Bank Loan”	the outstanding loan of US\$2,080,000 owing by Fine Elite to a lending bank as at the Acquisition Completion, the repayment of which is guaranteed by Power City
“Best Key”	Best Key Holding Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Bestlinkage”	美邦啓立光電科技(上海)有限公司 (Bestlinkage NHI Co., Ltd.), a Sino-foreign equity joint venture company established in Shanghai, the PRC with limited liability, as more particularly described in the section headed “Information on Power City, Bestlinkage and the Land” in the Letter from the Board
“Board”	the board of Directors
“business day”	means a day (other than a Saturday or a Sunday) on which banks are open for business in Hong Kong and the PRC
“Buy-Out”	the purchase by Power City from the Local Partner of its 24% equity interest in Bestlinkage in accordance with the terms of the Buy-Out Agreement
“Buy-Out Agreement”	means the sale and purchase agreement to be entered into between Power City as purchaser and the Local Partner as seller for the purposes of the Buy-Out which shall be in a form as approved by Kings Haul (which approval shall not be unreasonably withheld) incorporating such reasonable commercial terms as it considers appropriate
“Buy-Out Completion”	completion of the sale and purchase of 24% equity interest in Bestlinkage pursuant to the Buy-Out Agreement and Fine Elite producing the new business licence and approval certificate issued by the local ministry of commerce and/or Administration for Industry and Commerce in respect of Bestlinkage evidencing that Power City is the sole shareholder of the entire issued capital of Bestlinkage
“BVI”	the British Virgin Islands

DEFINITIONS

“Capital Call”	means a demand by Power City of its shareholders made in accordance with the terms of the Power City Shareholders’ Agreement for the provision of funding to Power City, whether by equity, shareholders’ loans or other means
“China Real”	China Real Estates Investment Holdings Limited, a company incorporated in the BVI with limited liability and an independent third party
“Company”	Rykadan Capital Limited, the shares of which are listed on the Stock Exchange (Stock Code: 2288)
“Conditions Precedent”	the conditions precedent to the Acquisition Completion, the summary of which is set out in the section headed “The SP Agreement – Conditions Precedent” in the Letter from the Board
“Conditions Subsequent”	the conditions subsequent to be fulfilled following the Acquisition Completion, the summary of which is set out in the section headed “The SP Agreement – Conditions Subsequent” in the Letter from the Board
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Consideration”	an amount of RMB58,325,572 payable as consideration for the Sale Shares by Kings Haul pursuant to the SP Agreement, subject to adjustment as described in the section headed “The SP Agreement – Adjustment to the Consideration” in the Letter from the Board
“Director(s)”	the director(s) of the Company, including independent non-executive directors
“Escrow Account”	an interest-bearing deposit account for deposit of the Escrow Amount
“Escrow Agent”	means TMF Trust (Hong Kong) Limited
“Escrow Amount”	the HK\$ equivalent of RMB63,104,000, being the amount payable by Kings Haul to the Escrow Account in the manner described in the section headed “The SP Agreement – Terms of arrangement for payment” in the Letter from the Board
“Excess Kings Haul’s Buy-Out Contribution”	an amount equivalent to the Kings Haul Buy-Out Contribution less the Maximum Kings Haul Buy-Out Contribution

DEFINITIONS

“Extended Acquisition Completion Date”	the date falling 30 days from the Acquisition Completion Date
“Final Buy-Out Price”	the final consideration per sq.m. payable by Power City for the Buy-Out
“Fine Elite”	Fine Elite Holdings Limited, a company incorporated in the BVI with limited liability which held, as at the date of the SP Agreement, approximately 100% and, as at the Latest Practicable Date, 30% interest in Power City
“Fine Elite Released Amount”	a sum in the amount of RMB18,039,990 to be released from the Escrow Account to Fine Elite in the manner described in the section headed “The SP Agreement – Terms of arrangement for payment” in the Letter from the Board, which is subject to deduction in the manner as described in the section headed “The SP Agreement – Reimbursement of the Excess Kings Haul Buy-Out Contribution” in the Letter from the Board
“Fine Elite’s Obligations”	the obligations to be performed by Fine Elite at the Acquisition Completion in accordance with the SP Agreement, including the delivery of such documents or instruments for the purposes of giving effect to the transactions contemplated under the SP Agreement and the Power City Shareholders’ Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“High Yield Debt”	means the loan of RMB1,000,000 which was extended by Shanghai Pudong Yinsheng Micro-loan Co., Ltd, an independent third party to Bestlinkage for the repayment of the ICBC Loan at an interest rate of 20% and repayable by 15 July 2012
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICBC Loan”	means the outstanding loan owed by Bestlinkage to Industrial and Commercial Bank of China Shanghai Nanhui Branch as at the Acquisition Completion
“independent third party(ies)”	third party(ies) independent of the Company, its directors, chief executives or substantial Shareholder

DEFINITIONS

“Intercompany Loans”	means the intercompany loans in the aggregate amount of approximately RMB26,383,417 (including loan principal and interest accruing thereon, if any) owing by entities within the Target Group as at the date of the SP Agreement
“Kailong Investment”	Kailong Investment Management Limited, a company established in the BVI and an indirect non wholly-owned subsidiary of the Company
“Kings Haul”	Kings Haul Limited, a company incorporated in the BVI
“Kings Haul Additional Payment”	shareholders loans in the sum of RMB39,851,297 to be advanced by Kings Haul to the Target Group as Kings Haul’s pro-rata contribution to the repayment of the Intercompany Loans and the consideration for the Buy-Out pursuant to the SP Agreement
“Kings Haul Buy-Out Contribution”	such amount of shareholder loans to be contributed by Kings Haul to Power City on a pro-rata basis to fund the payment by Power City of the consideration for the Buy-Out to be determined with reference to the final consideration for the Buy-Out
“Kings Haul Shareholders’ Agreement”	the shareholders’ agreement dated 1 August 2012 entered into between Best Key, China Real, KLR Hong Kong and Kings Haul, a summary of the major terms of which is set out in the section headed “The Kings Haul Shareholders’ Agreement” in the Letter from the Board
“Kings Haul’s Obligations”	the obligations to be performed by Kings Haul at the Acquisition Completion in accordance with the SP Agreement, including the delivery of such documents or instruments for the purposes of giving effect to the transactions contemplated under the SP Agreement and the Power City Shareholders’ Agreement
“KH Share(s)”	share(s) in Kings Haul
“KLR Hong Kong”	Kailong REI Project Investment Consulting (Hong Kong) Co., Limited, a company incorporated in Hong Kong and a 41.07% owned subsidiary of the Company

DEFINITIONS

“KLR Loan”	an interest-bearing loan of an aggregated amount of RMB5,850,000 extended by KLR Shanghai to Bestlinkage for the purpose of the repayment by Bestlinkage of part of the ICBC Loan and the entire principal of the High Yield Debt
“KLR Shanghai”	上海凱龍瑞項目投資諮詢有限公司 (Kailong REI Project Investment Consulting (Shanghai) Co., Ltd.), a company established in the PRC and an indirect non wholly-owned subsidiary of the Company
“Kwun Tong Project”	means the re-development project of the property located at 135-137 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong, owned by Vital Success Development Limited, a company owned by the Company as to 65%
“Land”	means Bestlinkage Business Park Shanghai, which is located at No. 2300 Xuanhuang Road, Pudong, Shanghai, PRC with a site area of approximately 34,760.5 sq.m.
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Latest Practicable Date”	29 October 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Local Partner”	上海兩港投資發展有限公司 (Shanghai Double Bay Investment Development Co., Ltd.), a company established in the PRC which held 24% equity interest in Bestlinkage as at the Latest Practicable Date, and an independent third party
“Maximum Kings Haul Buy-Out Contribution”	a sum in the amount of RMB20,924,820, being the maximum amount to be contributed by Kings Haul to Power City for the purposes of the Buy-Out
“Meibang Qingdao”	美邦啓立(青島)置業有限公司 (Bestlinkage (Qingdao) DTZ Co., Ltd.), an investment holding company established in the PRC whose entire issued capital is solely held by California Properties Limited, a wholly owned subsidiary of Fine Elite
“Mr. Chan”	Mr. Chan William, an executive Director, the Chairman, the Chief Executive Officer and a substantial shareholder of the Company

DEFINITIONS

“Mr. Leung”	Mr. Leung Kai Ming, an ex-executive Director and the ex-chief operating officer of the Company who resigned from the Company with effect from 1 July 2012
“Mr. Li”	Mr. Li Chu Kwan, Ms. Li’s brother and a substantial shareholder of the Company
“Mr. Ng”	Mr. Ng Tak Kwan, an executive Director and a substantial shareholder of the Company
“Mr. Wong”	Mr. Wong Kim Hung Patrick, an ex-non-executive Director who resigned from the Company with effect from 1 July 2012
“Ms. Li”	Ms. Li Wing Yin, Mr. Li’s sister and a substantial shareholder of the Company
“PC Share(s)”	share(s) in Power City
“Power City”	Power City Investments Limited, a company incorporated in Hong Kong, as more particularly described in the section headed “Information on Power City, Bestlinkage and the Land” in the Letter from the Board
“Power City Shareholders’ Agreement”	the shareholders’ agreement in relation to Power City dated 1 August 2012 entered into between Fine Elite, Kings Haul and Power City, a summary of the major terms of which is set out in the section headed “The Power City Shareholders’ Agreement” in the Letter from the Board
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC, and Taiwan, for the purposes of this circular
“Project”	means the project in connection with the development of the Land
“Projected Net Liabilities”	means the total liabilities of the Target Group on a consolidated basis (including Local Partner’s share interest in Bestlinkage) minus the total assets (excluding the Land and the Project) of the Target Group on a consolidated basis as at 31 July 2012, being RMB111,692,656
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“Sale Shares”	33,319,924 ordinary shares in (or the 70% shareholding of) the entire issued capital of Power City
“Scenemay Holdings”	Scenemay Holdings Limited, an investment holding company incorporated in the BVI with limited liability on 18 December 2007, the entire issued share capital of which was owned by Mr. Li and Ms. Li in equal shares as at the Latest Practicable Date
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	share(s) of HK\$0.01 each in the Company
“Share Buyback Option”	as such term is defined in the section headed “The SP Agreement – Kings Haul’s Share Buyback Option” in the Letter from the Board
“Share Mortgage Agreement”	the share mortgage agreement dated 1 August 2012 entered into simultaneously with the SP Agreement between Fine Elite and Kings Haul for Fine Elite to mortgage to Kings Haul: (i) 14,279,967 ordinary shares (or 30% shareholding) in the issued capital of Power City which it legally and beneficially owns; and (ii) 36,657,500 shares (or 100% shareholding) in the issued capital of California Properties Limited, which in turn is the sole shareholder holding the entire issued share capital of Meibang Qingdao
“Shareholder(s)”	the holder(s) of Share(s)
“SP Agreement”	the share purchase agreement in relation to shares comprising 70% shareholding in Power City dated 1 August 2012 entered into between Fine Elite and Kings Haul
“sq.m.”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it by the Listing Rules
“Target Group”	Power City and Bestlinkage

DEFINITIONS

“Technical Defects”	defects relating to buildings currently existing on the Land, including but not limited to, the gaps found in certain corridors of the buildings, the presence of rusting mirrors in certain washrooms, the loss of power supply in certain areas and the failure to conduct annual checks for certain elevators
“Tiger Crown”	Tiger Crown Limited, an investment holding company incorporated in the BVI with limited liability on 2 March 2004, the entire issued share capital of which was owned by Mr. Chan as at the Latest Practicable Date
“Written Approval”	the written approval of the Transactions, the Restructuring Agreement, the Subscription Agreement and the transactions contemplated thereby by Tiger Crown, Scenemay Holdings, Mr. Leung, Mr. Ng and Mr. Wong, dated 1 August 2012
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

English names of the PRC established companies in this circular are only translations of their official Chinese names. In case of inconsistency, the Chinese names of PRC established companies will prevail.

LETTER FROM THE BOARD



RYKADAN CAPITAL LIMITED

宏基資本有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2288)

Executive Directors:

Mr. Chan William (陳偉倫)
(Chairman and Chief Executive Officer)
Mr. Ng Tak Kwan (吳德坤)
Mr. Yip Chun Kwok (葉振國)
(Chief Financial Officer)

Registered office:

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

Independent non-executive Directors:

Mr. Ho Kwok Wah, George (何國華)
Mr. To King Yan, Adam (杜景仁)
Mr. Wong Hoi Ki (黃開基)

Principal Place of Business

in Hong Kong:
Room 1305, 13/F,
Shun Tak Centre West Tower,
200 Connaught Road Central,
Hong Kong

31 October 2012

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION

**FORMATION OF JOINT VENTURE
AND**

ACQUISITION OF 70% INTERESTS IN POWER CITY

INTRODUCTION

On 1 August 2012, the Company announced that:

- (a) on 21 June 2012, Best Key (a wholly-owned subsidiary of the Company), KLR Hong Kong (a 41.07% owned subsidiary of the Company) and China Real formed Kings Haul, a joint venture company, which is owned as to 84.38% by Best Key, 7.81% by KLR Hong Kong and 7.81% by China Real; and on 1 August 2012 the aforementioned parties entered into the Kings Haul Shareholders' Agreement;

LETTER FROM THE BOARD

- (b) on 1 August 2012, Kings Haul and Fine Elite entered into the SP Agreement in relation to the acquisition by Kings Haul of Fine Elite's 70% interests in Power City; and
- (c) on 1 August 2012, Kings Haul and Fine Elite entered into the Power City Shareholders' Agreement.

FORMATION OF JOINT VENTURE

Best Key, China Real and KLR Hong Kong had on 21 June 2012 subscribed for 8,438 KH Shares (representing 84.38% of the enlarged issued capital of Kings Haul) at US\$8,438, 781 KH Shares (representing 7.81% of the enlarged issued capital of Kings Haul) at US\$781 and 781 KH Shares (representing 7.81% of the enlarged issued capital of Kings Haul) at US\$781 respectively, following which Kings Haul has become a non wholly-owned subsidiary of the Company.

On 1 August 2012, Best Key, China Real, KLR Hong Kong and Kings Haul further entered into the Kings Haul Shareholders' Agreement which sets out, among other details, the manner of management of and shareholders' financial commitments to Kings Haul. The purpose of the incorporation of Kings Haul is to acquire interests in Power City, an investment holding company of Bestlinkage which in turn holds the Land, from Fine Elite subject to the terms and conditions of the SP Agreement.

THE ACQUISITION AND THE SP AGREEMENT

Immediately prior to the Acquisition Completion, Power City was a wholly-owned subsidiary of Fine Elite, and Power City held 76% equity interest in Bestlinkage and the remaining 24% equity interest in Bestlinkage was owned by the Local Partner. Following the Acquisition Completion on 14 August 2012, the Company has become effectively interested in approximately 61.31% shareholding interest in Power City and (before the Buy-Out Completion) approximately 46.60% equity interest in Bestlinkage.

As the intention of the Company is for Power City to control 100% equity interest in Bestlinkage, it is a Condition Subsequent that Fine Elite shall procure the Buy-Out within the Agreed Period. The purchase price for the Buy-Out shall be paid by Power City by means of shareholder loans to be provided by Kings Haul and Fine Elite on a pro-rata basis, subject to the reimbursement of the Excess Kings Haul Buy-Out Contribution in accordance with the SP Agreement, as more particularly described in the section headed "The SP Agreement – Reimbursement of the Excess Kings Haul Buy-Out Contribution" below.

Fine Elite has granted to Kings Haul the Share Buyback Option, particulars of which are set out in the section headed "The SP Agreement – Kings Haul's Share Buyback Option" below, which is exercisable at any time in the event that there is no Buy-Out Completion or that Power City fails to become the registered and beneficial owner of 100% equity interest of Bestlinkage by the expiry of the Agreed Period. The Share Buyback Option is guaranteed by Fine Elite in the manner described in paragraph 3 in the section headed "The SP Agreement – Conditions Precedent" below.

LETTER FROM THE BOARD

Upon the Buy-Out Completion, the Company shall further acquire 14.71% effective interest in Bestlinkage and hold approximately 61.31% effective interest in each of Power City and Bestlinkage, following which Bestlinkage shall become a subsidiary of the Company.

The purpose of this circular is to provide the Shareholders with, amongst other things:

- (i) further details of the Kings Haul Shareholders' Agreement, the SP Agreement, the Power City Shareholders' Agreement and the transactions contemplated thereunder; and
- (ii) a property valuation report in respect of the Land.

FORMATION OF JOINT VENTURE

On 21 June 2012, Best Key, China Real and KLR Hong Kong subscribed for 8,438 KH Shares (representing 84.38% of the enlarged issued capital of Kings Haul) at US\$8,438, 781 KH Shares (representing 7.81% of the enlarged issued capital of Kings Haul) at US\$781 and 781 KH Shares (representing 7.81% of the enlarged issued capital of Kings Haul) at US\$781 respectively, following which Kings Haul has become a non wholly-owned subsidiary owned as to 87.59% by the Company.

On 1 August 2012, Best Key, China Real, KLR Hong Kong and Kings Haul further entered into the Kings Haul Shareholders' Agreement with China Real and KLR Hong Kong setting out, among others, the manner of management of and shareholders' financial commitments to Kings Haul. The purpose of the incorporation of Kings Haul is to acquire interests in Power City, an investment holding company of Bestlinkage which in turn holds the Land, from Fine Elite subject to the terms and conditions of the SP Agreement.

THE KINGS HAUL SHAREHOLDERS' AGREEMENT

The major terms of the Kings Haul Shareholders' Agreement are summarised as follows:

Date:

1 August 2012

Parties:

- (1) Best Key
- (2) China Real
- (3) KLR Hong Kong
- (4) Kings Haul

LETTER FROM THE BOARD

The Company owns approximately 41.07% of the issued share capital of KLR Hong Kong. Since the majority of the board of directors of KLR Hong Kong is controlled by the Company, it is a non-wholly owned subsidiary of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, China Real and its ultimate beneficial owner are independent third parties.

Effectiveness

The Kings Haul Shareholders' Agreement shall become effective upon the approval of the Kings Haul Shareholders' Agreement and the transactions contemplated thereunder by the Shareholders in accordance with the relevant requirements of the Listing Rules.

The approval set out above has been obtained and thus the Kings Haul Shareholders' Agreement has become effective.

Finance for Kings Haul and/or Power City

Each of Best Key, China Real and KLR Hong Kong shall arrange financing for Kings Haul to pay the Consideration and the Kings Haul Additional Payment in accordance with the provisions of the SP Agreement and to fulfil Kings Haul's needs for capital expenditure and working capital reserve in accordance with the provisions of the Power City Shareholders' Agreement and such other transaction fees to be incurred by Kings Haul and/or Power City for the transactions contemplated under the Kings Haul Shareholders' Agreement, the SP Agreement and the Power City Shareholders' Agreement by way of shareholders' loans or by other means in the following amounts in accordance with the provisions of the Kings Haul Shareholders' Agreement:

Name of shareholder	Commitment Amount
Best Key	US\$17,720,000 (approximately RMB111,458,800)
China Real	US\$1,640,000 (approximately RMB10,315,600)
KLR Hong Kong	US\$1,640,000 (approximately RMB10,315,600)

KLR Hong Kong's and Best Key's financing commitments under the Kings Haul Shareholders' Agreement is financed by the Group's internal financial resources, which comprises, among other things, proceeds from the global offering of the Company as described in the prospectus of the Company dated 11 August 2009 and proceeds from the disposal of 85% interests in Sundart Holdings Limited in June 2012 as described in the Company's circular dated 1 June 2012.

Board of directors of Kings Haul

The board of directors of Kings Haul shall consist of a maximum number of 3 directors, of which 2 directors shall be appointed by Best Key and 1 director shall be appointed by KLR Hong Kong, or such other number as the shareholders of Kings Haul may unanimously agree from time to time.

LETTER FROM THE BOARD

The board of Kings Haul shall be responsible for making decisions relating to the business of Kings Haul. All matters to be determined by the board of Kings Haul shall be decided by a simple majority vote, save that certain matters specified in the Kings Haul Shareholders' Agreement (including but not limited to any change in the share capital, authorised share capital or registered capital of Kings Haul, Power City or Bestlinkage; any voluntary dissolution or winding up of Kings Haul, Power City or Bestlinkage; and any amendments to the constitutional documents of Kings Haul, Power City or Bestlinkage) shall not be done unless with the prior unanimous approval of either (i) all of Best Key, China Real and KLR Hong Kong in writing or in a general meeting of Kings Haul, (ii) all the directors of Kings Haul in writing; or (iii) all the directors of Kings Haul in a board meeting (which shall, in any event, include at least 1 director appointed by Best Key and 1 director appointed by KLR Hong Kong) who are present at which a quorum is present in accordance with the provisions of the Kings Haul Shareholders' Agreement.

Operations of Kings Haul, Power City and Bestlinkage

Kings Haul shall procure Power City to appoint Kailong Investment, an indirect non wholly-owned subsidiary of the Company, to provide investment related consulting services to Power City, and Power City shall procure Bestlinkage to appoint KLR Shanghai or its designated affiliate as the asset manager to provide asset management related consulting services to the Project.

Each of Kailong Investment and KLR Shanghai is an indirect non wholly-owned subsidiary of the Company. The principal business activity of Kailong Investment is the provision of investment advisory services. The principal business activities of KLR Shanghai are the provision of consultation and investment advisory services relating to project management, finance, market research and asset management affairs.

Options

Under the Kings Haul Shareholders' Agreement, Best Key, China Real and KLR Hong Kong will have the following rights or options to require the other parties to buy/sell the KH Shares held and the shareholder's loans made by the other parties to Kings Haul upon the occurrence of the following events:–

Pre-emption rights If any shareholder of Kings Haul (the “**Selling Shareholder**”) wishes to transfer its KH Shares, it shall first offer all (but not some only) of its KH Shares and all its shareholders' loans owing by Kings Haul to the Selling Shareholder to the other shareholders of Kings Haul in accordance with the provisions of the Kings Haul Shareholders' Agreement.

Deadlock In the event of a deadlock in relation to certain matters being proposed but not resolved by the board of Kings Haul after the prescribed procedure, each of the shareholders of Kings Haul shall have the right to make an irrevocable offer to the others to acquire all (and only all) of the others' KH Shares and all (and only all) of the others' shareholders' loan to Kings Haul.

LETTER FROM THE BOARD

If no offer is made by any of the shareholders of Kings Haul, the deadlock is deemed to be unresolved in accordance with the Kings Haul Shareholders' Agreement. In such event, if the directors of Kings Haul do not allow such deadlock to remain, the shareholders of Kings Haul shall jointly appoint a third party consultant to find a buyer for all (but not some) of the KH Shares and the shareholders' loans to Kings Haul, subject to the procedures set out in the Kings Haul Shareholders' Agreement. If no third party buyer is willing to purchase the KH Shares and the shareholders' loans to Kings Haul within the prescribed period, each of the shareholders of Kings Haul shall make an irrevocable offer to the others stating a price at which it will be willing to purchase the others' KH Shares and the others' shareholders' loans to Kings Haul, and whoever has made the highest bid in accordance with the procedures set out in the Kings Haul Shareholders' Agreement shall be bound to acquire the KH Shares and the shareholders' loans to Kings Haul of the other shareholders of Kings Haul who shall in turn be bound to sell such KH Shares and shareholders' loans at the price stated in the bid.

Default

If (a) any of the shareholders of Kings Haul is in material breach of the terms of the Kings Haul Shareholders' Agreement; (b) any of the shareholders of Kings Haul, or any part of its assets or undertaking, is involved in or subject to any insolvency proceedings, has stopped or suspended payment of its debts, become unable to pay its debts or otherwise become insolvent in any relevant jurisdiction or there are circumstances which require or would enable any insolvency proceedings to be commenced in respect of such party or any part of its assets or undertaking; or (c) if any of the shareholders of Kings Haul is in breach of its warranty or undertaking in the Kings Haul Shareholders' Agreement, such shareholder in breach shall be deemed to have made an irrevocable offer to the non-defaulting shareholders (i) to sell all of its KH Shares and all of its shareholders' loans to Kings Haul to the non-defaulting shareholders or its designee at a discount of 10% to the fair market value of such KH Shares and such shareholders' loans (on pari passu basis according to the shareholding of the non-defaulting shareholders in Kings Haul); or (ii) to buy all of the KH Shares and all of its shareholders' loans to Kings Haul of the non-defaulting shareholders at a premium of 10% to the fair market value of the KH Shares and shareholders' loans to Kings Haul of the non-defaulting shareholders. Such an offer is crystallized by a non-defaulting shareholder serving a notice to the shareholder

LETTER FROM THE BOARD

in breach stating that there has been an event of default (“**Default Transfer Notice**”). Each non-defaulting shareholder shall have the right to decide if it wishes to exercise any of the option to sell or option to buy by giving notice in writing to within 30 days following service of the Default Transfer Notice. Fair market value means the fair market value of the relevant shares and the shareholder’s loan as the shareholder in breach and the non-defaulting shareholders shall agree or, failing agreement, to be determined by an auditor from an approved list as set out in the Kings Haul Shareholders’ Agreement.

If and when the Company, at its discretion, exercises any of the options described above (when such becomes exercisable), the Company shall then take steps to comply with the applicable requirements pursuant to Chapter 14 and Chapter 14A of the Listing Rules (where required).

THE ACQUISITION

Immediately prior to the Acquisition Completion, Power City was a wholly-owned subsidiary of Fine Elite, and Power City held 76% equity interest in Bestlinkage and the remaining 24% equity interest in Bestlinkage was owned by the Local Partner. Following the Acquisition Completion on 14 August 2012, the Company has become interested in approximately 61.31% shareholding interest in Power City and (before the Buy-Out Completion) approximately 46.60% equity interest in Bestlinkage. As the intention of the Company is for Power City to control 100% equity interest in Bestlinkage, it is a Condition Subsequent that Fine Elite shall procure the purchase by Power City from the Local Partner of its 24% equity interest in Bestlinkage (the “**Buy-Out**”) within the Agreed Period. The purchase price for the Buy-Out shall be paid by Power City by means of shareholder loans to be provided by Kings Haul and Fine Elite on a pro-rata basis, subject to the reimbursement of the Excess Kings Haul Buy-Out Contribution in accordance with the SP Agreement, as more particularly described in the section headed “The SP Agreement – Reimbursement of the Excess Kings Haul Buy-Out Contribution” below.

Fine Elite has granted to Kings Haul the Share Buyback Option, particulars of which are set out in the section headed “The SP Agreement – Kings Haul’s Share Buyback Option” below, which is exercisable at any time in the event that there is no Buy-Out Completion or that Power City fails to become the registered and beneficial owner of 100% equity interest of Bestlinkage by the expiry of the Agreed Period. The Share Buyback Option is guaranteed by Fine Elite in the manner described in paragraph 3 in the section headed “The SP Agreement – Conditions Precedent” below.

Upon the Buy-Out Completion, the Company shall further acquire approximately 14.71% effective interest in Bestlinkage and hold approximately 61.31% effective interest in each of Power City and Bestlinkage; following which Bestlinkage shall become a subsidiary of the Company.

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(I) THE SP AGREEMENT

The major terms of the SP Agreement are summarised as follow:

Date:

1 August 2012

Parties:

- (1) Fine Elite as the vendor
- (2) Kings Haul as the purchaser

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, at the time of entering into the SP Agreement, Fine Elite and its ultimate beneficial owner are independent third parties.

Assets to be acquired under the SP Agreement

Kings Haul has conditionally agreed to purchase, and Fine Elite has conditionally agreed to sell, the Sale Shares.

Consideration and Financing of the Target Group

The total amount payable by Kings Haul under the SP Agreement shall be RMB98,176,869, which shall comprise of:

- (1) a consideration of RMB58,325,572, which is subject to adjustment in accordance with the mechanism set out in the section headed "The SP Agreement – Adjustment to the Consideration" below, for the purchase of the Sale Shares (the "**Consideration**"). The Consideration was determined after taking into account the Project value (determined on the basis of RMB4,300 per sq.m., an amount agreed after arm's length commercial negotiations with Fine Elite with reference to the market price reported in an independent valuation report available to the Company multiplied by the gross floor area of the Land of approximately 52,304.07 sq.m.), less the Projected Net Liabilities and the minority interest of the Local Partner, multiplied by 70%, and that the Company would acquire 46.60% effective interest in Bestlinkage upon the Acquisition Completion.
- (2) a sum of RMB39,851,297, as Kings Haul's pro-rata share of payment contribution to the Target Group in the form of shareholder loans for the consideration of the Buy-Out and the repayment of the Intercompany Loans (the "**Kings Haul Additional Payment**"). The Kings Haul Additional Payment is determined with reference to Kings Haul's pro rata contribution to the consideration for the Buy-Out and the repayment of Intercompany Loans.

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Since a minority shareholder, the Local Partner, has 24% equity interest in Bestlinkage, the Intercompany Loans were not eliminated when Bestlinkage is consolidated into the accounts of Power City so that the Local Partner would also bear its portion of the Intercompany Loans.

The Acquisition Completion took place on 14 August 2012. Following adjustments made to the Consideration as set out in the section headed “Adjustment to the Consideration” below, the Actual Consideration payable by Kings Haul amounted to RMB58,097,428.

Terms of arrangement for payment

Within 5 business days after the signing of the SP Agreement and the set-up of the Escrow Account (whichever is later), Kings Haul shall pay the HK\$ equivalent of RMB63,104,000 (the “**Escrow Amount**”) into the Escrow Account. The Escrow Amount shall comprise part of the Consideration (in the amount of RMB48,789,882) as well as part of the Kings Haul Additional Payment (in the amount of RMB14,314,118).

(A) Manner of payment of the Consideration

- (i) On the Acquisition Completion Date, an amount equivalent to RMB19,649,892, as part payment of the Consideration, shall be released from the Escrow Account in the following manner:
 - (a) to Fine Elite, the HK\$ equivalent of RMB13,515,270 for the repayment of the Bank Loan in full; and
 - (b) to Power City, RMB6,134,622 as shareholder’s loan contributed by Fine Elite to Power City, with which Fine Elite shall apply towards, in the priority order, (1) the repayment of Fine Elite’s portion (30%) of the KLR Loan, and (2) the repayment of part of the Intercompany Loans.
- (ii) On or after the Acquisition Completion, Kings Haul shall, according to the decision of the board of Power City, instruct the Escrow Agent to release, in a lump sum or by installments, of up to an amount of RMB11,100,000 from the Escrow Account to Power City, as part payment of the Consideration, towards the capital expenditure and/or working capital reserve of Power City, as shareholder’s loan contributed by Fine Elite to Power City.
- (iii) Within 5 Business Days after the Buy-Out Completion:
 - (a) subject to the reduction as set out in the section headed “The SP Agreement – Reimbursement of the Excess Kings Haul Buy-Out Contribution” below, an amount equivalent to RMB18,039,990 (the “**Fine Elite Released Amount**”), as part payment of the Consideration, shall be released from the Escrow Account partly to Power City and partly to Fine Elite (such amounts to be ascertained according to the Final Buy-Out Price). Such amount released to Power City, subject to the Final Buy-Out Price, will be deemed as

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shareholder loan contributed by Fine Elite to fulfil its part of funding for the payment (or partial payment) of the Buy-Out and the outstanding Intercompany Loans; and

- (b) an additional amount equivalent to RMB9,535,690 shall be paid by Kings Haul to Fine Elite, as payment of the balance of the Consideration, part of which Fine Elite shall apply towards the partial payment for the Buy-Out as required to be contributed by Fine Elite, if needed.

(B) Manner of payment of the Kings Haul Additional Payment

(i) Repayment of Intercompany Loans

- (a) On the Acquisition Completion Date, an amount equivalent to RMB14,314,118 shall be paid out from the Escrow Account and released by the Escrow Agent to Power City, as shareholder loans contributed by Kings Haul, for the partial repayment of the Intercompany Loans and Kings Haul's portion (70%) of the KLR Loan (subject to PRC foreign exchange approval and other requirements for the onshore Intercompany Loans).
- (b) Within 5 business days after the Buy-Out Completion, an amount equivalent to RMB4,612,359 shall be paid by Kings Haul to Power City as shareholder loans contributed by Kings Haul, for repayment of the balance of the Intercompany Loans (subject to PRC foreign exchange approval and other requirements for the onshore Intercompany Loans).

(ii) Payment for the Buy-Out

Within 5 business days after the Buy-Out Completion, Kings Haul shall contribute its pro rata share of shareholder loans to Power City, as payment by Kings Haul on a pro-rata basis for payment of the purchase price for the Buy-Out (“**Kings Haul Buy-Out Contribution**”).

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The table below summarises the amounts and manner of payment by Kings Haul of the Consideration (being the amount payable by Kings Haul for the purchase of 70% interest in Power City) and Kings Haul Additional Payment (being the shareholders loan to be advanced to the Target Group as Kings Haul's pro-rata contribution to the consideration for the Buy-Out and repayment of the Intercompany Loans) under the SP Agreement:

<u>Time of payment</u>	<u>Consideration</u>	<u>Kings Haul Additional Payment</u>
Within 5 business days after the signing of the SP Agreement and the set-up of the Escrow Account (Actual payment date: 15 August 2012)	RMB48,789,882 <i>(which, together with RMB14,314,118, payable as part of the Kings Haul Additional Payment, shall form the Escrow Amount in the aggregate sum of RMB63,104,000)</i>	RMB14,314,118 <i>(which, together with RMB48,789,882, payable as part of the Consideration, shall form the Escrow Amount in the aggregate sum of RMB63,104,000)</i>
At the Acquisition Completion Date (Actual payment date: 15 August 2012)	RMB19,649,892, <i>(Released from the Escrow Account partly to Power City and partly to Fine Elite)</i>	RMB14,314,118 <i>(Released from the Escrow Account to Power City for repayment of Intercompany Loans)</i>
On or after the Acquisition Completion	RMB11,100,000 <i>(Released from the Escrow Account by installments to Power City)</i>	–

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<u>Time of payment</u>	<u>Consideration</u>	<u>Kings Haul Additional Payment</u>
<p>Within 5 Business Days after the Buy-Out Completion (The Buy-Out Completion is expected to take place within 7 months from the date of payment of the Escrow Amount or any extended period as may be agreed between Fine Elite and Kings Haul)</p>	<p>(1) RMB18,039,990 (subject to deduction in the manner as described in the section headed “The SP Agreement – Reimbursement of the Excess Kings Haul Buy-Out Contribution” below) <i>(Released from the Escrow Account partly to Power City and partly to Fine Elite)</i></p> <p>(2) RMB9,535,690 <i>(Paid to Fine Elite directly)</i></p>	<p>(1) RMB4,612,359 <i>(Paid to Power City directly as shareholder loans for repayment of Intercompany Loans)</i></p> <p>(2) the Kings Haul Buy-Out Contribution (any amount exceeding RMB20,924,820 shall be reimbursed in the manner as described in the section headed “The SP Agreement – Reimbursement of the Excess Kings Haul Buy-Out Contribution” below) <i>(Paid to Power City directly as shareholders loans as contribution to the consideration of the Buy-Out)</i></p>
<p>Total amount payable:</p>	<p><u><u>RMB58,325,572</u></u></p>	<p><u><u>RMB39,851,297</u></u></p>

Payment of the Consideration and the Kings Haul Additional Payment if there is no Buy-Out Completion

(A) Consideration

As set out above, a remaining balance of the Consideration in the amount of RMB27,575,680 is payable within 5 Business Days after the Buy-Out Completion. Since the Consideration is the amount payable by Kings Haul for the purchase of the 70% shareholding interest in Power City pursuant to the SP Agreement and as the 70% shareholding interest in Power City has already been transferred to Kings Haul, Kings Haul has contractual obligations to pay the aforesaid remaining Consideration even if it chooses not to exercise the Share Buyback Option (and to keep its 70% shareholding interest in Power City) in the event that the Buy-Out is not completed in accordance with the provisions of the SP Agreement. However, the SP Agreement is silent on when the remaining balance of the Consideration shall be payable if there is no Buy-Out Completion and the Company

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chooses not to exercise the Share Buyback Option. In such event, the Company shall further negotiate with Fine Elite to ascertain the time for payment of the said remaining balance of the Consideration.

(B) Kings Haul Additional Payment

As set out the table above, part of the Kings Haul Additional Payment, being (i) the RMB14,314,118 released from the Escrow Account to Power City on the Acquisition Completion Date and (ii) the RMB4,612,359 to be paid within 5 days after the Buy-Out Completion, are intended to be Kings Haul's pro-rata contribution for the repayment of the Intercompany Loans. If there is no Buy-Out Completion and the Company chooses not to exercise the Share Buyback Option, Kings Haul may still advance the shareholders loan set out in (ii) above to Power City and in such event, Kings Haul shall negotiate with Fine Elite to ascertain the time for advancement of the such shareholders loan. For the avoidance of doubt, since the sums set out in (i) and (ii) above are advanced by Kings Haul as shareholders loan to Power City, if the Company wishes to exit from investment in the Target Group, Kings Haul may demand Power City to repay such shareholders loans advanced.

As set out in the table above, since the remaining balance of the Kings Haul Additional Payment in the sum of RMB20,924,820 was for intended to be Kings Haul's pro-rata contribution to the consideration for the Buy-Out, such amount of shareholders loan shall cease to be payable by Kings Haul if there is no Buy-Out Completion.

Adjustment to the Consideration

The Consideration is subject to further adjustment in the following manner:

- (a) No later than 5 business days after the Acquisition Completion Date, Fine Elite shall, in consultation and agreement with Kings Haul, prepare and deliver to Kings Haul the Acquisition Completion Accounts, or failing agreement, instruct the auditors of Power City / a third party accounting firm to audit the Acquisition Completion Accounts, setting forth the Actual Net Liabilities and the Actual Consideration.
- (b)
 - (i) If the Actual Net Liabilities is more than the Projected Net Liabilities, Fine Elite shall refund to Kings Haul an amount equivalent to 70% of the difference between the two amounts.
 - (ii) If the Actual Net Liabilities is lesser than the Projected Net Liabilities, Kings Haul shall pay to Fine Elite an amount equivalent to 70% of the difference between the two amounts.

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Provided that, for the purpose of determining the amount of adjustment to be made to the Consideration, the Actual Net Liabilities shall at the minimum be 90% of the Projected Net Liabilities.

The Acquisition Completion took place on 14 August 2012. According to the Acquisition Completion Accounts, the amount of the Actual Net Liabilities is RMB112,104,409, which is less than the Projected Net Liabilities. Accordingly, the Consideration was deducted in the amount of RMB228,144 and the Actual Consideration is RMB58,097,428.

Further, as set out in paragraph 3 under the section headed “The SP Agreement – Conditions Subsequent” below, any expenses incurred by Bestlinkage to rectify the Technical Defects shall also be deducted from the Consideration. As at the Latest Practicable Date, Bestlinkage has incurred expenses in the sum of RMB184,999 for the rectification of the Technical Defects, which shall be reimbursed separately by Fine Elite.

Reimbursement of the Excess Kings Haul Buy-Out Contribution

Fine Elite and Kings Haul have agreed that the maximum shareholder’s loan to be contributed by Kings Haul to Power City for the purpose of the Buy-Out shall be RMB20,924,820 (the “**Maximum Kings Haul Buy-Out Contribution**”).

If the final consideration payable for the Buy-Out per sq.m. (the “**Final Buy-Out Price**”) is in excess of the Project value based on RMB4,300 per sq.m., Kings Haul shall be entitled to be reimbursed with an amount equivalent to the Kings Haul Buy-Out Contribution less the Maximum Kings Haul Buy-Out Contribution (the “**Excess Kings Haul Buy-Out Contribution**”) by deducting the Fine Elite Released Amount. In such circumstances, a sum equivalent to the Excess Kings Haul Buy-Out Contribution shall be released from the Escrow Account to Kings Haul upon the joint instructions of Fine Elite and Kings Haul and the Fine Elite Released Amount shall be reduced accordingly.

Since the Kings Haul Buy-Out Contribution is Kings Haul’s contribution towards the consideration for the Buy-Out and such amount is capped at the Maximum Kings Haul Buy-Out Contribution pursuant to the above reimbursement mechanism; Kings Haul’s maximum contribution for the consideration of the Buy-Out is RMB20,924,820. Accordingly, the Maximum Kings Haul Buy-Out Contribution is the effective consideration payable by Kings Haul for the Buy-Out, following which the Company shall acquire a further effective interest of 14.71% in Bestlinkage.

The Maximum Kings Haul Buy-Out Contribution is determined after taking into account the Project value (determined on the basis of RMB4,300 per sq.m., an amount agreed after arm’s length commercial negotiations with Fine Elite with reference to the market price reported in an independent valuation report available to the Company) and that the Company would further acquire 14.71% effective interest in Bestlinkage upon the Buy-Out Completion.

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Kings Haul's Share Buyback Option

In consideration of Kings Haul entering into the SP Agreement, Fine Elite has agreed to grant to Kings Haul an option to have Fine Elite buy back the Sale Shares from Kings Haul (“**Share Buyback Option**”) for an amount equivalent to the Actual Consideration if there is no Buy-Out Completion within 7 months from the date of payment of the Escrow Amount by Kings Haul, or any extended period as may be agreed between Fine Elite and Kings Haul.

Kings Haul shall be entitled to exercise the Share Buyback Option at any time in the event that there is no Buy-Out Completion or Power City fails to undertake the Buy-Out such that Power City fails to become the registered and beneficial owner of 100% equity interest of Bestlinkage by the expiry of the Agreed Period (which may be extended by mutual agreement between Fine Elite and Kings Haul).

In the event that the Share Buyback Option is triggered and exercised by Kings Haul, Fine Elite shall be obliged to: (1) return to Kings Haul the amounts paid to Fine Elite by Kings Haul under the SP Agreement; (2) instruct the Escrow Agent to release the amount in the Escrow Account to Kings Haul in full with interest at the market prevailing six months based lending rate as quoted by the People's Bank of China accrued thereon; (3) procure the return to Kings Haul, by Power City, all of the shareholder's loan paid and/or provided by Kings Haul to the Target Group; (4) pay to Kings Haul interest on the Agreed Amount, all capital expenditures and working capital paid and/or provided by Kings Haul to the Target Group; and (5) reimburse Kings Haul of certain legal fees incurred, each in accordance with the provisions of the SP Agreement.

The SP Agreement does not provide any specific time limit for Fine Elite to satisfy its obligation in the event the Share Buyback Option is triggered and exercised by Kings Haul. However, the Directors expect that in such event, Fine Elite shall satisfy its obligations within a reasonable period.

Following the Acquisition Completion, Fine Elite has become a connected person of the Company by virtue of being a shareholder holding more than 10% interests in Power City, a non wholly-owned subsidiary of the Company. If and when the Company, at its discretion, exercises the Share Buyback Option (when it becomes exercisable), the Company shall then take steps to comply with the disclosure requirements pursuant to Chapter 14 and Chapter 14A of the Listing Rules (where required).

The Share Buyback Option shall be guaranteed by Fine Elite in the manner set out under paragraph 3 in the section headed “The SP Agreement – Conditions Precedent” below. In the event that Fine Elite fails to comply in full with its obligations as mentioned above upon the exercise of the Share Buyback Option by Kings Haul, Kings Haul shall be entitled to enforce the mortgage and apply the proceeds as payment to Kings Haul in accordance with the Share Mortgage Agreement. If and when the Company becomes entitled to and decides to enforce the mortgage in accordance with the Share Mortgage Agreement, the Company shall take steps to comply with the disclosure requirements pursuant to Chapter 14 and Chapter 14A of the Listing Rules (where required).

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In the event that there is no Buy-Out Completion such that the Company cannot take control over Bestlinkage and the Share Buyback Option becomes exercisable should the Directors wish to further cooperate with the Local Partner in relation to Bestlinkage, the Directors may further negotiate with the Local Partner at that point in relation to the running and management of Bestlinkage. Should such negotiations fail, the Directors would re-evaluate whether or not to continue investing in the Target Group. The Directors would take into account the then prevailing market conditions including but not limited to government policies, the value of the land and the economic situation, to decide whether continued investment in the Target Group would be in the best interests of the Company and its shareholders as a whole. In such event, should the Directors form a view that it is not commercially viable to invest in the Target Group or that it would not be in the best interests of the Company and its shareholders, the Company shall exercise the Share Buyback Option.

Conditions Precedent

Fine Elite shall use its best endeavours to procure the fulfilment of the following Conditions Precedent and none of the Conditions Precedent shall be waived unless written consent for such waiver is obtained from Kings Haul.

1. Fine Elite having initiated the process of the Buy-Out on behalf of Power City immediately upon the payment of the Escrow Amount to the Escrow Agent as described in the section headed “The SP Agreement – Terms of arrangement for payment” above. For the avoidance of doubt, the Buy-Out Completion is not a condition to the Acquisition Completion;
2. Fine Elite having procured the rectification of the share capital of Power City and the issuance of PC Shares by filing all relevant amendment documents to the Hong Kong Companies Registry, as the company secretary of Power City had previously filed a Form SC 1 (Return of Allotment) with the Companies Registry which contains a mistake as to the number of shares allotted to Fine Elite, resulting in an incorrect description as to the number of issued shares in the share capital of Power City;
3. for the purposes of the Share Buyback Option, Fine Elite either:
 - (i) having mortgaged to Kings Haul a collateral in the minimum amount of 2 times of the Agreed Amount comprising (A) 14,279,967 ordinary shares (or 30% shareholding) in the issued capital of Power City which it legally and beneficially owns and do not constitute the Sale Shares and (B) 36,657,500 shares (or 100% shareholding) in the issued capital of California Properties Limited, which in turn is the 100% holder and parent company of the entire issued share capital of Meibang Qingdao in accordance with the Share Mortgage Agreement; or
 - (ii) having provided to Kings Haul in cash a guarantee in the amount of the Agreed Amount, capital expenditures and working capital provided by Kings Haul to the Target Group.

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Fine Elite has elected item (i) above as security for the Share Buyback Option. For the avoidance of doubt, Fine Elite may opt to switch the ways of security above at its own cost, subject to prior written consent of Fine Elite and Kings Haul.

4. Fine Elite having obtained the consent from the lending bank in respect of the Bank Loan for the purposes of (1) the change in control in Power City upon the Acquisition Completion; (2) the extension of the repayment date of the Bank Loan for a period of 1 month and (3) the rectification of the description of the share capital and the number of issued shares of Power City as set out in documents previously filed with the Hong Kong Companies Registry;
5. Fine Elite having completed the release of mortgage (and the registration thereof, if required by applicable law) in respect of a bank loan to Bestlinkage in the amount of RMB50,000,000 which has been repaid in full;
6. Fine Elite having procured the repayment of the High Yield Debt (including interest and other payables thereon) in full;
7. Fine Elite having executed a deed of undertaking and indemnity in respect of losses, liabilities or claims which may arise from the incorrect issued share capital of Power City in favour of Kings Haul;
8. Fine Elite having procured the termination of all project management agreements and asset management agreements for the engagements of the project manager, the property manager or the asset manager in respect of the Project or the Land, such that any fees and charges payable by Bestlinkage or Power City under such agreements shall cease to be payable upon termination. Fine Elite shall reimburse Power City and/or Bestlinkage fees payable in connection with the termination of such agreements;
9. Fine Elite having procured the entering into of (a) an asset management agreement between Bestlinkage and KLR Shanghai for the purposes of appointing KLR Shanghai as the asset manager of the Project and (b) an investment management agreement between Power City and Kailong Investment for the purposes of Power City's appointment of Kailong Investment to provide investment management related consulting services to Power City;
10. there being no material change in the capital structure of each of Power City and Bestlinkage except for the Buy-Out in accordance with the SP Agreement from the signing of the memorandum of understanding dated 9 May 2012 between KLR Shanghai and Fine Elite to the Buy-Out Completion;
11. there being no material damage to the Land and/or the Project;

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12. there being no breach of the warranties set out in the SP Agreement which would have a material adverse effect on Fine Elite's ability to convey good title in the Sale Shares, or on the financial condition, prospects, earnings, business, undertaking or assets of any company of the Target Group or on the Land and/or the Project;
13. Fine Elite having entered into and procured Power City to enter into the Power City Shareholders' Agreement;
14. Fine Elite having procured Power City to issue a letter of removal and appointment to remove a director of Power City and appoint a person nominated by Kings Haul as the new director of Power City with effect from the Acquisition Completion Date;
15. Fine Elite having procured each party to each of the Intercompany Loans to execute and enter into agreements in writing in respect of each such Intercompany Loans including a condition to the effect that any repayment of the ICBC Loan will not be triggered by the repayment of any Intercompany Loans;
16. Fine Elite having procured each lender in respect of each of the Intercompany Loans to confirm in writing that the calculation of all interest in relation to such Intercompany Loans ends on 30 July 2012 and obtained the written confirmation from the each such lender; and
17. the approval of the SP Agreement and the transactions contemplated thereunder by the Shareholders in accordance with the relevant requirements of the Listing Rules.

If the condition precedent set out in paragraph 6 above is not satisfied on or before the Acquisition Completion Date, Kings Haul shall be only responsible for the payment of interest up to the amount to be computed based on the market prevailing 6 months based lending rate as quoted by the People's Bank of China on the High Yield Debt. The shortfall shall be paid for by Fine Elite and be reflected as part of the Actual Net Liabilities and adjustment to the net asset value of the Target Group. As at the Latest Practicable Date, all the Conditions Precedent have been fulfilled (or waived).

Conditions Subsequent

Fine Elite shall use its best endeavours to procure the fulfilment of the following Conditions Subsequent (unless waived by the written consent of Kings Haul) on or prior to the respective dates set out below:

1. Fine Elite having procured the entry into and the execution of the Buy-Out Agreement and the Buy-Out Completion having taken place within 7 months of the date of payment of the Escrow Amount by Kings Haul or any extended period as may be agreed between Fine Elite and Kings Haul;

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2. Fine Elite having procured the repayment of the outstanding amounts of the Intercompany Loans in full and the discharge of securities (if any) in relation thereto within 3 weeks of the Buy-Out Completion;
3. Fine Elite having procured the rectification of the Technical Defects within 1 month of the Acquisition Completion at its own expenses. Any expenses incurred by Bestlinkage to rectify these defects shall be deducted from the Consideration;
4. Fine Elite having procured the business scope of Bestlinkage to be amended by removing the words “多餘廠房及相關設施租賃(不改變廠房性質及用途)” (leasing of spare factory premises and related facilities (without changing the usage and nature of such factory premises)) and inserted in its place the words “自有廠房租賃” (leasing of self-owned factory premises) within 7 months of the date of the payment of the Escrow Amount by Kings’ Haul or any extended period as may be agreed between Fine Elite and Kings Haul, as the property shall be leased for office use rather than storage or manufacturing use and there are no spare factory premises available for lease;
5. Fine Elite having discharged a share charge in respect of the share capital of Power City, which was executed by Fine Elite in favour of a lending bank in connection with the Bank Loan in August 2010, within 5 days after the Acquisition Completion;
6. Fine Elite having informed a lending bank of the change of legal representative of Bestlinkage within 2 business days of such change in effect;
7. Fine Elite having obtained the certificate of change of directors of Bestlinkage issued by the State Administration for Industry and Commerce of the PRC within 20 business days of the Acquisition Completion; and
8. Fine Elite (i) having procured Power City to remove the legal representative of Bestlinkage and appoint such person nominated by Kings Haul as the new legal representative with effect from the Acquisition Completion Date and (ii) having obtained the new business licence of Bestlinkage issued by the State Administration for Industry and Commerce of the PRC, showing the new legal representative within 20 business days of the Buy-Out Completion.

Fine Elite shall provide such documentary proof showing the satisfaction of the Conditions Subsequent in accordance with the provisions of the SP Agreement.

As at the Latest Practicable Date, the Conditions Subsequent numbered 3 to 7 and 8(i) above have already been fulfilled.

The Acquisition Completion

Subject to and conditional upon satisfaction (or waiver) of the Conditions Precedent, the Acquisition Completion shall take place within 10 days following (and excluding) the date of signing of the SP Agreement, or such later date as Kings Haul and Fine Elite may

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agree in writing, and the parties shall use all reasonable endeavours to make the Acquisition Completion occur as early as possible. At the Acquisition Completion, Fine Elite shall, among others, deliver such documents or instruments for the purposes of giving effect to the transactions contemplated in the SP Agreement and the Power City Shareholders' Agreement in accordance with the provisions of the SP Agreement (the "**Fine Elite's Obligations**") and Kings Haul shall, among others, deliver such documents or instruments for the purposes of giving effect to the transactions contemplated in the SP Agreement and the Power City Shareholders' Agreement in accordance with the provisions of the SP Agreement (the "**Kings Haul's Obligations**").

The Acquisition Completion took place on 14 August 2012. Following the Acquisition Completion and prior to the Buy-Out Completion, the Company has become interested in approximately 61.31% shareholding interest in Power City, thus Power City has become a subsidiary of the Company. Upon the Buy-Out Completion, the Company will become interested in approximately 61.31% interest in both Power City and Bestlinkage; and both Power City and Bestlinkage will become subsidiaries of the Company.

Postponement of the Acquisition Completion or termination/rescission of the SP Agreement

The Acquisition Date may be deferred to the Extended Acquisition Completion Date, or the SP Agreement may be terminated or rescinded in the following circumstances:

- (a) In the event that any Conditions Precedent is not satisfied or Acquisition Completion does not occur by reason of any breach by Fine Elite of the Fine Elite's Obligations, Kings Haul and Fine Elite shall defer the Acquisition Completion to the Extended Acquisition Completion Date, and Fine Elite shall pay liquidated damages to Kings Haul in accordance with the provisions of the SP Agreement. If the aforesaid non-satisfaction or breach persists or Fine Elite fails to procure the satisfaction of the Conditions Precedent or the Acquisition Completion, Kings Haul shall be entitled to (1) proceed to the Acquisition Completion so far as practicable; or (2) terminate the SP Agreement in accordance with the provisions of the SP Agreement, following which Fine Elite shall instruct the Escrow Agent to release the amount in the Escrow Amount to Kings Haul in full together with interest accrued thereon, pay liquidated damages to Kings Haul and reimburse Kings Haul of certain legal fees incurred, each in accordance with the provisions of the SP Agreement.
- (b) Unless otherwise provided in the SP Agreement, in the event that Kings Haul fails to pay the Escrow Amount to the Escrow Account or the Acquisition Completion does not occur by reason of any breach by Kings Haul of the Kings Haul's Obligations, Fine Elite and Kings Haul shall defer the Acquisition Completion to the Extended Acquisition Completion Date, and Kings Haul shall pay liquidated damages to Fine Elite in accordance with the provisions of the SP Agreement. If the aforesaid non-satisfaction or breach persists or Kings Haul fails to procure the satisfaction of the conditions precedent or the Acquisition Completion, Fine Elite shall be entitled to (1) proceed to the Acquisition Completion so far as practicable, or (2) terminate the SP Agreement in accordance with the provisions

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of the SP Agreement, following which Kings Haul shall pay liquidated damages to Fine Elite and reimburse Fine Elite of certain legal fees incurred, each in accordance with the provisions of the SP Agreement.

- (c) If on or before the Acquisition Completion, the government or other competent authority shall acquire or give notice of acquisition or resumption or intended acquisition or resumption of any of the Land or any part thereof, Fine Elite shall immediately notify Kings Haul thereof and Kings Haul may in its discretion rescind the SP Agreement in accordance with the provisions of the SP Agreement, following which the SP Agreement shall become null and void and of no further effect.
- (d) In the event that Fine Elite fails to fulfil the Condition Subsequent set out in paragraph 4 in the section headed “The SP Agreement – Conditions Subsequent” above on or prior to the Buy-Out Completion, Kings Haul shall be entitled to terminate the SP Agreement in accordance with the provisions of the SP Agreement, whereupon the SP Agreement shall forthwith be terminated and of no further force and effect and all obligations and liabilities of Kings Haul under the SP Agreement shall cease and determine. In such case, Fine Elite shall forthwith (1) return to Kings Haul the amounts paid to Fine Elite by Kings Haul under the SP Agreement, (2) instruct the Escrow Agent to release the amount in the Escrow Account in full together with interest accrued thereon without any set-off or deduction thereof to Kings Haul, (3) procure the return to Kings Haul, by Power City, all of the shareholder’s loan paid and/or provided by Kings Haul for the repayment of the KLR Loan, part of the Intercompany Loans, all capital expenditures and working capital to the Target Group; (4) pay liquidated damages to Kings Haul; and (5) reimburse Kings Haul of certain legal fees incurred, each in accordance with the provisions of the SP Agreement. In the event Fine Elite fails to comply in full with its obligations as aforesaid, Kings Haul shall be entitled to enforce the mortgage and apply the proceeds as payment to Kings Haul in accordance with the Share Mortgage Agreement. Kings Haul shall forthwith execute all documents necessary for the transfer of the Sale Shares back to Fine Elite in accordance with the provisions of the SP Agreement.
- (e) In the event that Fine Elite fails to deliver relevant documentary proof in respect of the satisfaction of the Conditions Subsequent in accordance with the SP Agreement, Kings Haul shall grant Fine Elite a grace period of 30 days to procure the satisfaction of such Conditions Subsequent, and Fine Elite shall pay liquidated damages to Kings Haul in accordance with the provisions of the SP Agreement. If the aforesaid failure persists after the expiry of the grace period, Kings Haul shall be entitled to (i) extend the deadline for satisfaction of the Condition Subsequent; (ii) waive the satisfaction of such Condition Subsequent; or (iii) terminate the SP Agreement in accordance with the SP Agreement, and Fine Elite shall (1) return to Kings Haul the amounts paid to Fine Elite by Kings Haul under the SP Agreement, (2) instruct the Escrow Agent to release the amount in the Escrow Account in full together with interest accrued thereon without any set-off or deduction thereof to Kings Haul, (3) procure the return to Kings Haul, by Power City, all of the shareholder’s loan paid and/or provided for the repayment of the

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KLR Loan, part of the Intercompany Loans, all capital expenditures and working capital by Kings Haul to the Target Group; (4) pay liquidated damages to Kings Haul; and (5) reimburse Kings Haul of certain legal fees, each in accordance with the provisions of the SP Agreement. In the event Fine Elite fails to comply in full with its obligations as aforesaid, Kings Haul shall be entitled to enforce the mortgage and apply the proceeds as payment to Kings Haul in accordance with the Share Mortgage Agreement.

- (f) Prior to the Acquisition Completion, Fine Elite shall procure, among others, that any written notice received by Fine Elite or any company of the Target Group in relation to outstanding actions, suits or proceedings pending or threatened against any company of the Target Group before any court or tribunal shall be disclosed to Kings Haul as soon as possible. If such outstanding actions involve a claim more than RMB1,000,000, Fine Elite shall defer the Acquisition Completion to the Extended Acquisition Completion Date, and Fine Elite shall pay Kings Haul liquidated damages in accordance with the provisions SP Agreement. If the aforesaid outstanding actions could not be resolved by the Extended Acquisition Completion Date, Kings Haul shall be entitled to proceed to the Acquisition Completion, or terminated the SP Agreement in accordance with the SP Agreement, following which Fine Elite shall (1) instruct the Escrow Agent to release the amount in the Escrow Account in full together with interest accrued thereon without any set-off or deduction thereof to Kings Haul, (2) pay liquidated damages to Kings Haul; and (3) reimburse Kings Haul of certain legal fees, each in accordance with the provisions of the SP Agreement.

(II) THE POWER CITY SHAREHOLDERS' AGREEMENT

Simultaneously with the signing of the SP Agreement, Fine Elite, Kings Haul and Power City entered into the Power City Shareholders' Agreement, the major terms of which are summarised as follows: –

Date

1 August 2012

Parties

- (1) Fine Elite
- (2) Kings Haul
- (3) Power City

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, at the entering into of the Power City Shareholders' Agreement, Fine Elite, Power City and their ultimate beneficial owners are independent third parties.

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Effectiveness

The Power City Shareholders' Agreement shall become effective upon the Acquisition Completion and the approval of the Power City Shareholders' Agreement and the transactions contemplated thereunder by the Shareholders in accordance with the relevant requirements of the Listing Rules.

The approval set out above has been obtained and thus the Power City Shareholders' Agreement has become effective.

Finance for Power City

Following the Acquisition Completion, in respect of and to the extent of the amount set out below, each Power City Shareholder shall, in accordance with the ratio of their respective shareholdings in Power City, arrange financing for Power City to fulfil Power City's and/or Bestlinkage's needs for capital expenditure, property management fee reserve, asset management and investment management fee reserve, and working capital reserve by way of shareholder's loan by Power City to Bestlinkage or by other means provided that the shareholders of Power City agree that such additional funding shall be sourced from external financing to the extent possible.

	Fine Elite	Kings Haul
Working capital reserve	RMB8,990,100	RMB20,977,000
Capital expenditures	RMB1,800,000	RMB4,200,000
Property management fee reserve	RMB471,000	RMB1,099,000
Asset management/investment management fee reserve	<u>RMB674,700</u>	<u>RMB1,574,000</u>
Total	<u>RMB11,935,800</u>	<u>RMB27,850,000</u>

All further funding for Power City (in addition to the amount set out above) shall be satisfied through the following means:

- (a) the shareholders of Power City shall procure Power City and/or Bestlinkage to use reasonable endeavours to arrange non-recourse project finance from banks or other financial institutions on such terms as the board of Power City may determine; or
- (b) if external financing cannot be obtained or the amount obtained is insufficient, the outstanding portion of the required funding shall be satisfied by other methods as the board of Power City may determine.

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Board of directors and management of Power City

The board of Power City shall consist of a maximum number of 3 directors, which shall comprise of 1 director appointed by Fine Elite and 2 directors appointed by Kings Haul, or such other number as the shareholders of Power City may unanimously agree from time to time.

The board of directors of Power City shall be responsible for making decisions relating to the business of Power City. A quorum of the board of directors of Power City shall be 2 and the chairman of the board of directors of Power City shall be appointed by Kings Haul. Unless otherwise provided under applicable laws, all matters to be determined by the board shall be decided by a simple majority vote, save that the board of directors of Power City shall not do certain material matters specified in the Power City Shareholders' Agreement (including but not limited to any change to the business scope of Power City or Bestlinkage, any amendments to the constitutional documents of Power City or Bestlinkage and the provision of any guarantee by Power City or Bestlinkage to any third parties) unless with the unanimous consent of all the directors present at a duly convened board meeting.

Board of directors and management of Bestlinkage

Prior to the Buy-Out of the Local Partner:

Prior to the Buy-Out of the Local Partner, Bestlinkage shall have 7 directors and Power City has the right to appoint 5 directors (out of which Fine Elite and Kings Haul shall be entitled to nominate 4 directors and 1 director respectively for Power City to appoint as directors of Bestlinkage). The directors appointed by Power City shall exercise their rights and perform their obligations in accordance with the existing joint venture contract entered into between Power City and the Local Partner in respect of Bestlinkage in November 2006 (as amended and supplemented).

After the Buy-Out of the Local Partner:

After the Buy-Out of the Local Partner, Bestlinkage will be converted from a Sino-foreign equity joint venture into a wholly foreign-owned enterprise, which shall have 3 directors. The 3 directors appointed by Fine Elite and Kings Haul to the board of directors of Power City shall be appointed by Power City to act as directors of Bestlinkage. The legal representative and the chairman of the board of directors of Bestlinkage which Power City is entitled to appoint shall be nominated by Kings Haul. The board of directors of Bestlinkage shall exercise their rights and perform their obligations in accordance with the provisions of the Power City Shareholders' Agreement.

The board of directors of Bestlinkage shall be responsible for making decisions relating to the business of Bestlinkage. Unless otherwise provided under applicable laws, all matters to be determined by the board of directors of Bestlinkage shall be decided by a simple majority vote, save that the board of directors of Bestlinkage shall not do certain material matters as specified in the Power City Shareholders' Agreement (including but not limited to any change of the business scope to Bestlinkage, any amendments to the constitutional

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documents of Bestlinkage and the provision of any guarantee by Bestlinkage to any third parties), unless with the unanimous consent of all the directors present at a duly convened board meeting.

Appointment of asset manager and investment manager

Fine Elite, Kings Haul and Power City agreed to appoint KLR Shanghai or its designated affiliate as asset manager with effect from the Acquisition Completion Date, to provide asset and consultancy services for the Project on the remuneration terms as set out in the Power City Shareholders' Agreement; and to appoint Kailong Investment as investment manager with effect from the Acquisition Completion Date, to provide investment and consultancy services to Power City on the remuneration terms as set out in the Power City Shareholders' Agreement.

Options

Under the Power City Shareholders' Agreement, Kings Haul and/or Fine Elite have the following rights or options to require the other parties to subscribe for / buy / sell the PC Shares held and the shareholder's loans made by the other parties to Power City upon the occurrence of the following events:-

Failure to respond to a Capital Call

In the event that a Capital Call is made and any shareholder (the "**Non-Paying Shareholder**") fails to pay all or part of its relevant proportion of any Capital Call required, the other shareholder is entitled to pay or provide all or part of the Capital Call which the Non-Paying Shareholder failed to pay or provide (the "**Paying Shareholder**") in accordance with the provisions of the Power City Shareholders' Agreement. In such event: (a) in the case of a Capital Call for equity, the Paying Shareholder shall receive the appropriate proportion of any additional shares (which should be calculated at 115% of the relevant proportion of the original number of PC Shares required to be subscribed under the Capital Call originally required from the Non-Paying Shareholder) to which the Non-Paying Shareholder would have been entitled had it made payment of its share of the Capital Call (in whole or in part); and (b) in the case of a Capital Call for shareholders' loans, the Paying Shareholder shall pay the same in cash by way of subscription for PC Shares and shall be issued with such further PC Shares at a subscription price per PC Share equivalent to the Net asset value per share. Net asset value per share means in relation to any 1 PC Share, the amount obtained by the surplus (if any) of the assets of Power City over its liabilities (excluding share capital but including any liability in respect of loan stock or shareholders' loans) as shown in the audited balance sheet of Power City as at the end of the financial year immediately preceding that in which such value falls to be determined as discounted by 15% and divided by the total number of issued PC Shares at the relevant time.

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Pre-emption rights

In the event that Fine Elite wishes to transfer all or part of its PC Shares to a third party, Fine Elite shall first offer the PC Shares desired to be transferred to Kings Haul at the same price and on the same terms as those offered by the third party purchaser in accordance with the provisions of the Power City Shareholders' Agreement. In the event that Kings Haul exercises its right to purchase such PC Shares, Fine Elite shall also transfer and assign to Kings Haul such amount of its shareholders' loans to Power City for the time being outstanding that is equal to the rateable proportion that such PC Shares transferred bears to the total number of PC Shares held by Fine Elite immediately prior to the completion of such purchase.

Co-sale and Drag-along

In the event that Kings Haul wishes to sell to a third party all or a portion of its PC Shares, Kings Haul shall notify Fine Elite in writing (the "**Co-Sale Notice**") of the terms and conditions of such offer, whereupon Fine Elite shall be entitled, upon written notice (the "**Participation Notice**") to sell to the third party all or a portion of its PC Shares (provided that such number of PC Shares shall be no less than the number as shall be equal to the rateable proportion that the number of PC Shares which Kings Haul proposes to sell bears to all of Kings Haul's PC Shares) in accordance with the provisions of the Power City Shareholders' Agreement.

In the event that Fine Elite declines to participate in the proposed sale or fails to issue the Participation Notice within 14 days after receipt of the Co-Sale Notice, Fine Elite is deemed to have consented to the sale of the PC Shares by Kings Haul to the third party and Kings Haul shall be entitled to proceed with the proposed sale. Kings Haul shall also have the right in accordance with the provisions of the Power City Shareholders' Agreement to require Fine Elite to sell, and thereupon Fine Elite shall become bound to sell, to the third party all or a portion of Fine Elite's PC Shares as specified by Kings Haul, on the same terms and conditions applicable to the sale of the PC Shares by Kings Haul to the third party.

In the event of any of the aforesaid transfers, Fine Elite and Kings Haul shall also transfer and assign to the third party such amount of their respective shareholders' loans to Power City for the time being outstanding that is equal to the rateable proportion that the number of their respective PC Shares transferred bears to the total number of PC Shares held by Fine Elite and Kings Haul respectively immediately prior to the completion of such respective transfer.

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Default

If (a) any of Kings Haul or Fine Elite is in material breach of the terms of the Power City Shareholders' Agreement; (b) any of Kings Haul or Fine Elite, or any part of its assets or undertaking, is involved in or subject to any insolvency proceedings, or otherwise become insolvent in any relevant jurisdiction or there are circumstances which require or would enable any insolvency proceedings to be commenced in respect of such party or any part of its assets or undertaking; or (c) if any of Kings Haul or Fine Elite is in breach of its warranty or undertaking in the Power City Shareholders' Agreement, the shareholder in breach shall be deemed to have made an irrevocable offer to the non-defaulting shareholders (a) to sell all of its PC Shares and all of its shareholders' loans to Power City to the non-defaulting shareholders or its designee at a discount of 10% to the fair market value of such PC Shares and such shareholders' loans; or (b) to buy all of the PC Shares and all of its shareholders' loans to Power City of the non-defaulting shareholders at a premium of 10% to the fair market value of the PC Shares and shareholders' loans to Power City of the non-defaulting shareholders. Such an offer is crystallized by a non-defaulting shareholder serving a notice to the shareholder in breach stating that there has been an event of default ("**Default Transfer Notice**"). Each non-defaulting shareholder shall have the right to decide if it wishes to exercise any of the option to sell or option to buy by giving notice in writing to the shareholder in breach within 30 days following service of the Default Transfer Notice. Fair market value means the fair market value of the relevant shares and shareholder's loan as the shareholder in breach and the non-defaulting shareholder shall agree or, failing agreement, to be determined by an auditor chosen from an approved list as set out in the Power City Shareholders' Agreement

If and when the Company, at its discretion, exercises any of the options described above (when such becomes exercisable), the Company shall then take steps to comply with the applicable requirements pursuant to Chapter 14 and Chapter 14A of the Listing Rules (where required).

INFORMATION ON POWER CITY, BESTLINKAGE AND THE LAND

General

Power City is a company incorporated in Hong Kong with limited liability and the principal business of which is the holding of interests in Bestlinkage.

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Bestlinkage is a Sino-foreign equity joint venture company established in Shanghai, China under the laws of the PRC. Bestlinkage has a registered capital of US\$10,200,000, a paid-in registered capital of US\$10,200,000 and a total investment of US\$20,400,000. Its period of operation is from 29 November 2007 to 28 November 2057. Bestlinkage is principally engaged in the holding of the Land.

The Land is an American style research and development park located in the Nanhui area, an eastern part of Shanghai close to Disney Resort, Shanghai Pudong International Airport and Shanghai Harbour City, and has excellent transport connections and communications network. Being in the Nanhui Industrial Zone of Shanghai, the PRC, the Land enjoys the preferential tax and subsidies policies available to state level economic and development zones. As at the Latest Practicable Date, such preferential tax and subsidies policies shall remain available to the Land following the Buy-Out Completion notwithstanding the conversion of Bestlinkage from a Sino-foreign equity joint venture to a wholly foreign-owned enterprise.

The Land currently has five high quality buildings, a guard house, power shed and a car park that provide a total gross floor area of approximately 52,304 sq.m. with efficiency rate averaging 85%. Each building has four to five storeys and each storey has a gross floor area ranging from approximately 1,700 sq.m. to 4,000 sq.m. As at the Latest Practicable Date, a German corporate tenant had leased approximately 800 sq.m. of one of such buildings. The low occupancy rate is due to the lack of funds of the developer to build facilities on the Land. The Group plans to build new facilities such as canteens and a gym and to upgrade water features and car parking area in order to increase the attractiveness of the Land; thereby increasing its occupancy rate with a view to provide a steady rental income and to increase its capital value in the long run.

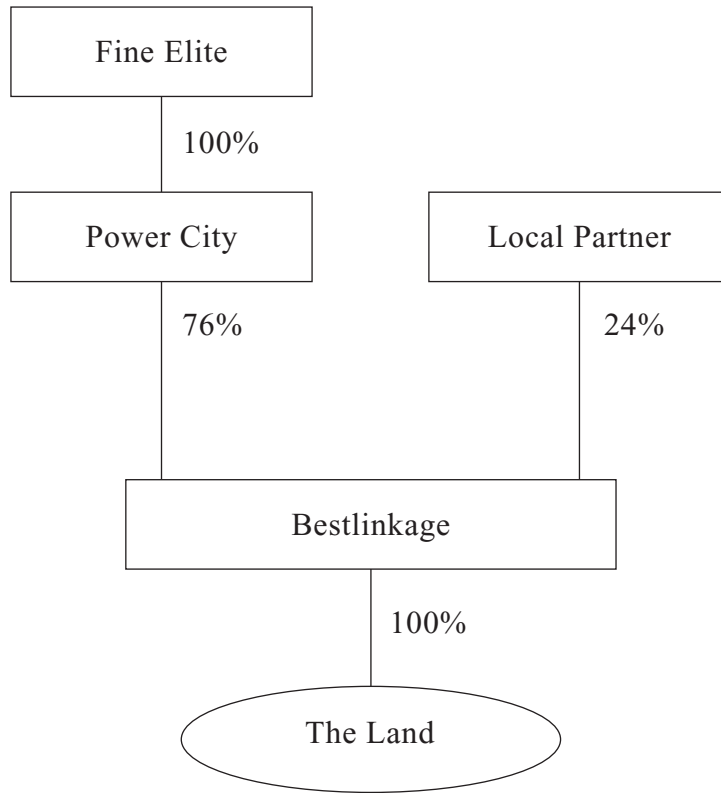
A property valuation report prepared by Savills Valuation and Professional Services Limited in respect of the Land is set out in Appendix IV to this circular.

Simplified corporate structure

Assuming that there are no changes in the share capital of each of the companies set out below other than changes as a result of the Acquisition Completion and the Buy-Out Completion, set out below are the simplified corporate structures of Kings Haul, Power City and Bestlinkage (i) immediately prior to the Acquisition Completion, (ii) immediately after the Acquisition Completion and (iii) immediately after the Buy-Out Completion:

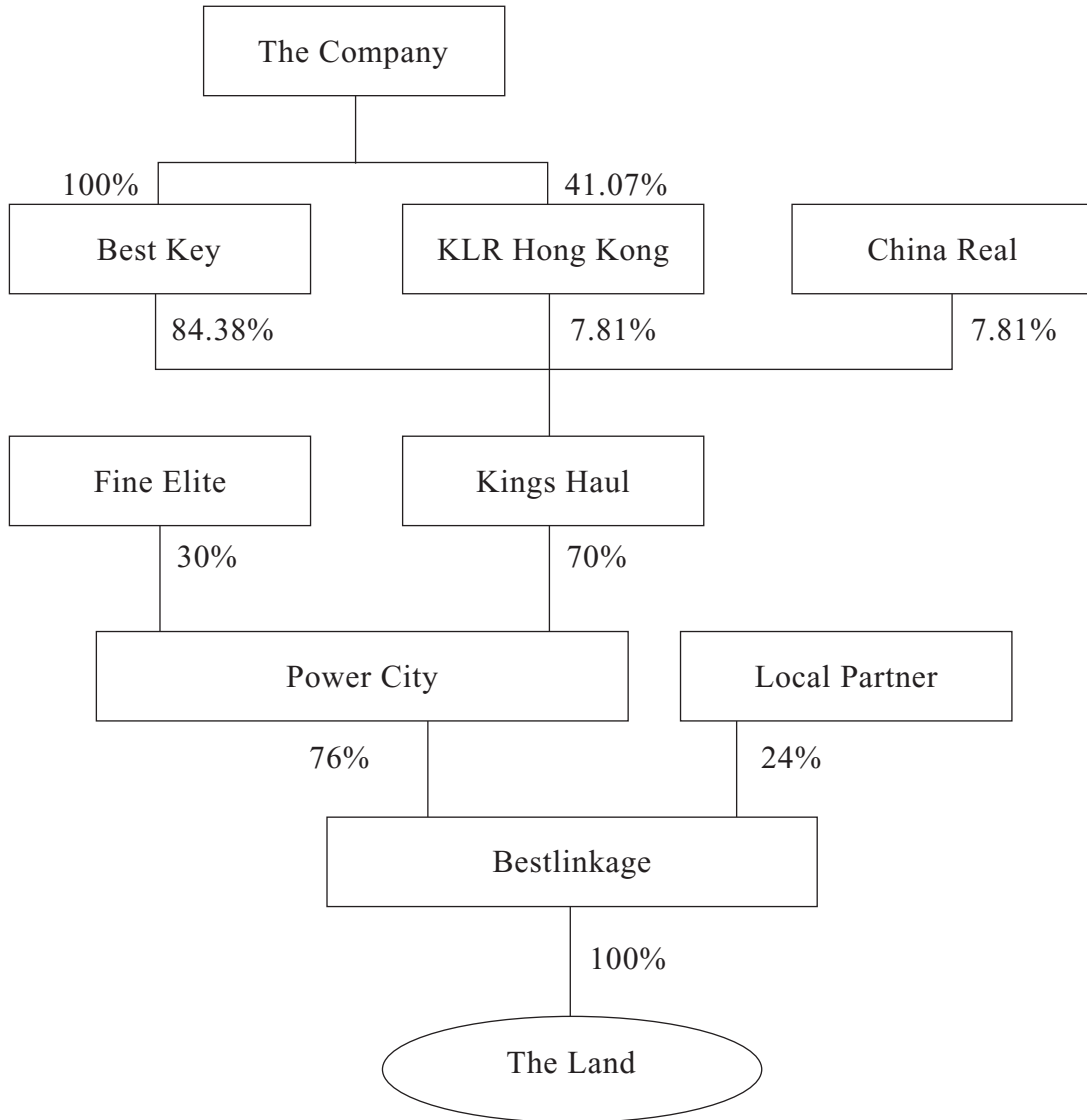
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(i) Immediately prior to the Acquisition Completion



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(ii) Immediately after the Acquisition Completion

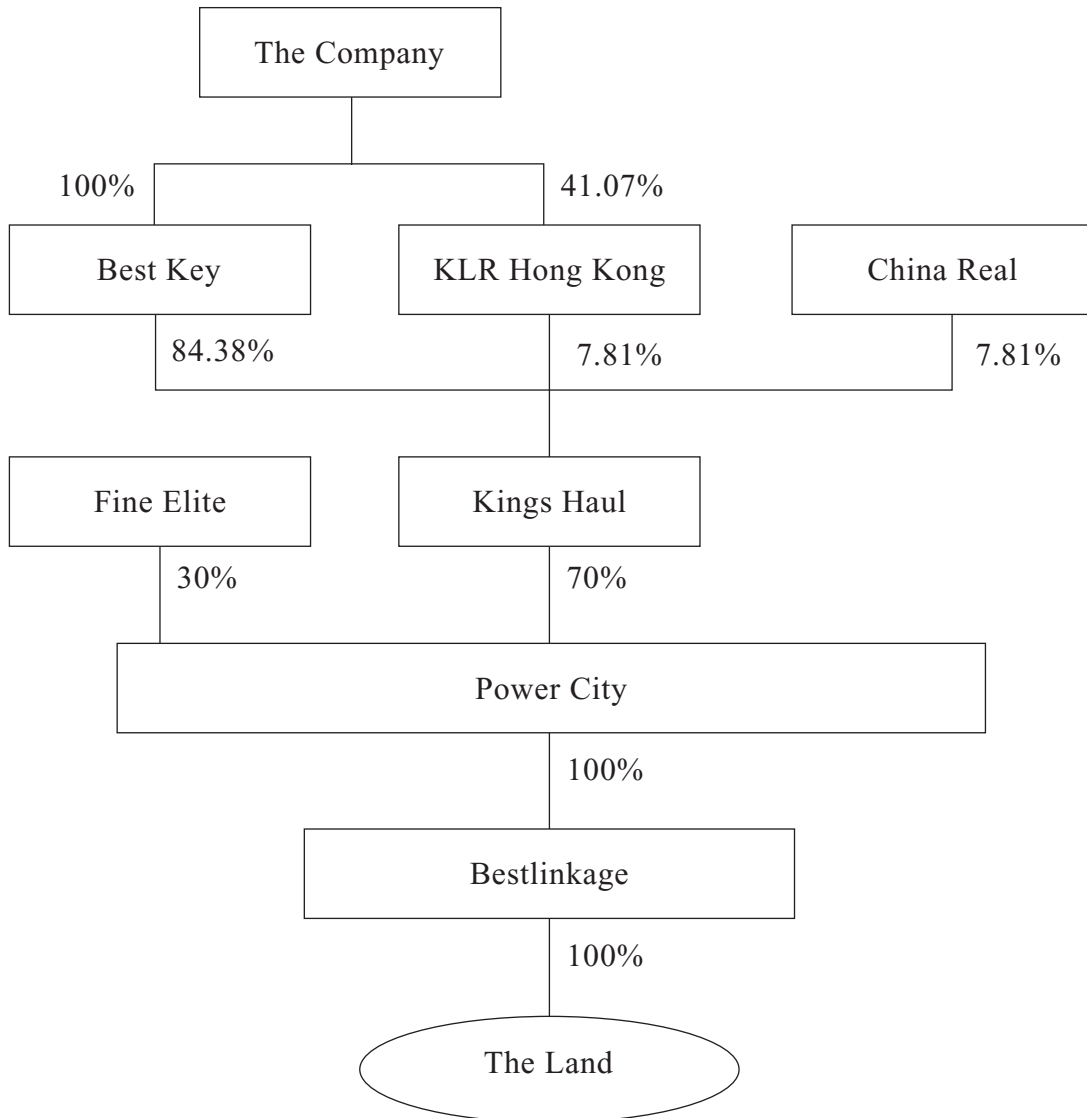


Where the Company's effective interest in:

- (i) Power City : $84.38\% \times 70\%$ (through Best Key) + $41.07\% \times 7.81\% \times 70\%$ (through KLR Hong Kong) = approximately 61.31%
- (ii) Bestlinkage : $84.38\% \times 70\% \times 76\%$ (through Best Key) + $41.07\% \times 7.81\% \times 70\% \times 76\%$ (through KLR Hong Kong) = approximately 46.60%

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(iii) Immediately after the Buy-Out Completion



Where the Company's effective interest in each of Power City and Bestlinkage:
 = 84.38% x 70% (through Best Key) + 41.07% x 7.81% x 70% (through KLR Hong Kong) = approximately 61.31%

i.e. further effective interest to be acquired by the Company pursuant to the Buy-Out is
 61.31% – 46.60% = approximately 14.71%

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Financial information

Based on the audited consolidated financial statements of Power City for the two years ended 30 April 2012, its net profit before and after taxation and minority interest for two years ended 30 April 2012 are as follows:

For the year ended 30 April 2011			For the year ended 30 April 2012		
Audited net profit before taxation and minority interest	Audited net profit after taxation but before minority interest	Audited net profit after taxation and minority interest	Audited net profit before taxation and minority interest	Audit net profit after taxation but before minority interest	Audited net profit after taxation and minority interest
HK\$89,750,000	HK\$67,049,000	HK\$49,563,000	HK\$3,023,000	HK\$2,070,000	HK\$1,480,000

The audited net asset value and the audited total asset value of Power City as at 30 April 2012 amounted to approximately HK\$164,593,000 and approximately HK\$331,869,000 respectively.

EFFECTS OF THE ACQUISITION AND THE BUY-OUT ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

In consideration of the Share Buyback Option, the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III to this circular, is prepared to illustrate the effect of the Acquisition Completion and the Buy-Out Completion.

Upon the Acquisition Completion and prior to the Buy-Out Completion

Upon the Acquisition Completion and prior to the Buy-Out Completion, the board of directors of Power City shall consist of 3 directors, which comprise of 1 director appointed by Fine Elite and 2 directors appointed by Kings Haul. However, the board of directors of Bestlinkage shall have 7 directors and Power City has the right to appoint 5 directors (out of which Kings Haul and Fine Elite is entitled to nominate 1 director and 4 directors respectively for Power City to appoint as directors of Bestlinkage). After considering, amongst others, the board representation of the Group in Power City and Bestlinkage upon the Acquisition Completion and prior to the Buy-Out Completion, the Directors are of the view that the Group is able to obtain control over Power City but unable to obtain control over Bestlinkage upon the Acquisition Completion and prior to the Buy-Out Completion.

Effect of assets/liabilities

Based on the unaudited pro forma financial information of the Group upon the Acquisition Completion as set out in Appendix III to this circular, the Group's total asset and liabilities as at 31 March 2012 would become approximately HK\$2,102,463,000 and HK\$1,113,256,000 respectively assuming that the Acquisition Completion took place on 31 March 2012.

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As aforementioned, since the Group is unable to obtain control over Bestlinkage prior to the Buy-Out Completion, the equity investment in Bestlinkage, which amounted to approximately HK\$115,573,000, is recognised as available-for-sale equity investment – investment in an investee in the book of Power City.

Effect on earnings

The Company does not expect there to be any material effect on earnings of the Group resulting from the Acquisition Completion.

Upon the Buy-Out Completion

Upon the Buy-Out Completion, the board of directors Bestlinkage shall have 3 directors and the 3 directors appointed by Fine Elite and Kings Haul to the board of directors of Power City shall be appointed by Power City to act as directors of Bestlinkage. The legal representative and the chairman of the board of directors of Bestlinkage which Power City is entitled to appoint shall be nominated by Kings Haul. After considering, amongst others, the board representation of the Group in Bestlinkage upon the Buy-Out Completion, the Directors are of the view that the Group is able to obtain control over Bestlinkage upon the Buy-Out Completion.

Effect of assets/liabilities

Based on the unaudited pro forma financial information of the Group upon the Acquisition Completion and the Buy-Out Completion as set out in Appendix III to this circular, the Group's total asset and liabilities as at 31 March 2012 would become approximately HK\$2,233,015,000 and HK\$1,243,808,000 respectively assuming that both the Acquisition Completion and the Buy-Out Completion took place on 31 March 2012.

As aforementioned, since the Group is able to obtain control over Bestlinkage upon the Buy-Out Completion, the Land shall be recorded as investment property at the date of the Buy-Out Completion.

Effect on earnings

The Company do not expect there to be a material effect on earnings of the Group resulting from the Buy-Out Completion.

It should be noted that the aforementioned estimations are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon the Acquisition Completion and the Buy-Out Completion.

REASONS FOR AND BENEFITS OF THE FORMATION OF KINGS HAUL AND THE ACQUISITION

Following the Acquisition Completion and the Buy-Out Completion, and through the provision of asset management and investment management services to Bestlinkage by KLR Shanghai and Kailong Investment (both being indirect non wholly-owned subsidiaries of the

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Company), the Group intends to enhance the rental yield as well as the capital value of the Land by upgrading its existing buildings through renovation, fitting-out and furnishing works and other improvements to the greenery, amenities and interior of the existing buildings. The Directors believe that such works would enhance the image and attractiveness of the Land, which together with its convenient location and the availability of preferential tax and subsidies policies, would enable the Land to be developed into a high-end business park attracting business enterprises to set up bases there.

After improving the Land, the Group expects the Land to bring in increased rental income through the leasing of the buildings thereon and subsequently, to provide capital gain to the Group during the sales of the buildings thereon at a later stage. The Acquisition Completion and the Buy-Out Completion is thus expected to generate stable rental revenue and return as well as to provide capital appreciation potential to the Group. The Company currently has no concrete plans to sell the buildings on the Land.

Given that the principal business of the Group is to engage in real estate development projects in which the business model is the repositioning and value enhancement of properties, the Directors consider that the Acquisition is in line with the core business strategy of the Group and that the Project would become the Group's first showcase project in the PRC.

The Company's intention is for Power City, a company which following Acquisition Completion has become its subsidiary, to acquire 100% interest in Bestlinkage through Power City, thereby enabling the Company to acquire 61.31% indirect interest in Bestlinkage, and this would be achieved upon the Buy-Out Completion, a Condition Subsequent under the SP Agreement. Since Bestlinkage is currently owned by Fine Elite and the Local Partner, who are joint venture partners, the Directors believe that Buy-Out Completion would more likely be achieved if negotiations in respect of the Buy-Out were conducted between Fine Elite and the Local Partner. As Fine Elite needs time and financial resources to fulfill the Conditions Subsequent (in particular, to bring about the Buy-Out Completion), the Company takes the view that allowing the Conditions Subsequent to be fulfilled after the Acquisition Completion (i.e. after the payment of part of the Consideration and the Additional Kings Haul Payment) is the practicable means to participate in and facilitate the eventual fulfillment of the Conditions Subsequent by Fine Elite. Without the Company's initial involvement and injection of funds, Fine Elite may not have the necessary means to fulfill the Conditions Subsequent and the Company would not be able to enable Power City acquiring 100% interest in Bestlinkage (i.e. the Land).

In the event that the Conditions Subsequent were not fulfilled and the legal representatives were not changed successfully, the Company would not be able to gain control over Bestlinkage.

However, in such event, the Company shall be entitled to exercise the Share Buyback Option in accordance with the provisions of the SP Agreement. Should the Company wish to further cooperate with the Local Partner in relation to Bestlinkage, the Company would conduct further negotiations with the Local Partner at that point in relation to the running and management of Bestlinkage. Should such negotiations fail, the Directors would re-evaluate whether or not to continue investing in the Target Group. The Directors would

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take into account the then prevailing market conditions including but not limited to government policies, the value of the land and the economic situation, to decide whether continued investment in the Target Group would be in the best interests of the Company and its shareholders as a whole. In such event, should the Directors form a view that it is not commercially viable to invest in the Target Group or that it would not be in the best interests of the Company and the Shareholders, the Company shall exercise the Share Buyback Option.

The Share Buyback Option is guaranteed by Fine Elite in the manner set out under paragraph 3 in the section headed “The SP Agreement – Conditions Precedent” above. So far as the Directors are aware, Meibang Qingdao is an investment holding company established in the PRC and owned by Fine Elite through California Properties Limited, and its major asset is a piece of land in Qingdao, the PRC with a site area of approximately 38,909.7 sq.m. In the event that Fine Elite fails to comply in full of its obligations as set out above upon the exercise of the Share Buyback Option by Kings Haul, Kings Haul shall be entitled to enforce the mortgage and apply the proceeds as payment to Kings Haul in accordance with the Share Mortgage Agreement. According to the unaudited management accounts of Meibang Qingdao, Meibang Qingdao has no large amounts of liabilities. So far as the Directors are aware, with reference to recent transactions records in respect of nearby locations of the land in Qingdao, the selling price per gross floor area of such locations is approximately RMB1,920 and has been showing a rising trend. In light of the above, the Directors are of the view that the land in Qingdao has good market potential and Meibang Qingdao serves as an adequate security to protect the interests of the Company.

Pursuant to the provisions of the Power City Shareholders’ Agreement, the Company will have no control over the board of Bestlinkage prior to the Buy-Out Completion. Taking into account that, (i) Fine Elite and the Local Partner are joint venture partners and they have previously entered into a joint venture contract regarding the management of Bestlinkage, (ii) it is neither the intention of the Local Partner nor that of the Company to cooperate with each other in respect of the business of Bestlinkage; (iii) the Directors do not consider taking control of the board of Bestlinkage prior to the Buy-out Completion to be particularly advantageous to the Company as Fine Elite is more familiar with the Local Partner as a result of previous cooperation and is thus in a better position to lead Power City to negotiate terms of the Buy-Out with the Local Partner and (iv) the Directors also consider that minimal changes to the composition of the board of directors of Bestlinkage would be conducive to bring about the Buy-Out Completion, the Directors consider that taking control of the board of directors of Bestlinkage only after the Buy-Out Completion is in the interests of the Company.

In light of the above, the Directors consider that the terms of the Kings Haul Shareholders’ Agreement, the SP Agreement and the Power City Shareholders’ Agreement are fair and reasonable and that the entering into of the Kings Haul Shareholders’ Agreement, the SP Agreement and the Power City Shareholders’ Agreement is in the interests of the Company and the Shareholders as a whole.

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MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group's business and performance for each of the three financial years ended 30 April 2010, 2011, 2012.

(i) For the financial year ended 30 April 2012

Results

For the financial year ended 30 April 2012, revenue in the amount of HK\$343,000 was recorded by the Target Group.

Liquidity and Financial Resources

As at 30 April 2012, the Target Group's total liabilities to total assets ratio was approximately 50.40%.

The Target Group mainly relies upon its cash and bank balances on hand, bank borrowings and intercompany loans to finance its operations.

Pledge of Assets

As at 30 April 2012, the Target Group had pledged investment properties to secure the term loan facility. The aggregate carrying value of the pledged assets was HK\$329,640,000. There are no plans to release the pledged assets upon the Acquisition Completion or the Buy-Out Completion.

Contingent Liabilities and Capital Commitments

The Target Group did not have any significant contingent liabilities and capital commitment as at 30 April 2012.

Exposure to Fluctuations in Exchange Rates and Interest Rates and Corresponding Hedging Arrangements

The Target Group's bank borrowings were made at floating rates. The Target Group mainly works in RMB. The exchange rate for the foresaid currency is relatively stable. The Target Group reviews the exchange risk regularly and closely monitors the fluctuations of foreign currencies and will make proper adjustments if necessary. The Target Group has no hedging arrangements for foreign currencies or interest rates.

Employees and Remuneration Policy

For the financial year ended 30 April 2012, the Target Group did not have any employees and thus no remuneration expenses were incurred.

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Personnel that assist the Target Group to handle project and property management, financial reporting and daily operations were hired by companies controlled by Fine Elite. Such operating costs were reflected in the Target Group's book as project and property management fees during the year.

Acquisition and Disposal of Subsidiaries

As at 30 April 2012, the Target Group had not entered into any material acquisitions and/or disposals of any its subsidiaries and associated companies.

Segment Information

The Target Group has only one operating segment which is property leasing, no segment information is presented other than the entity-wide information.

Significant Investment

As at 30 April 2012, the Target Group had investment properties of HK\$329,640,000. Save as disclosed above, the Target Group neither had any other significant investments nor any future plans for material investments or capital assets.

Prospects for New Business

For the financial year ended 30 April 2012, the Target Group did not have any new business including new products and services introduced or announced.

(ii) For the financial year ended 30 April 2011

Results

For the financial year ended 30 April 2011, no revenue was recorded by the Target Group.

Liquidity and Financial Resources

As at 30 April 2011, the Target Group's total liabilities to total assets ratio was approximately 47.84%.

The Target Group mainly relies upon its cash and bank balances on hand, bank borrowings and intercompany loans to finance its operations.

Pledge of Assets

As at 30 April 2011, the Target Group had pledged properties, plant and equipment and construction in progress to secure the term loan facility. The aggregate carrying value of the pledged assets was HK\$300,000,000.

LETTER FROM THE BOARD

Contingent Liabilities and Capital Commitments

The Target Group did not have any significant contingent liabilities and capital commitment as at 30 April 2011.

Exposure to Fluctuations in Exchange Rates and Interest Rates and Corresponding Hedging Arrangements

The Target Group's bank borrowings were made at floating rates. The Target Group mainly works in RMB. The exchange rate for the foresaid currency is relatively stable. The Target Group reviews the exchange risk regularly and closely monitors the fluctuations of foreign currencies and will make proper adjustments if necessary. The Target Group has no hedging arrangements for foreign currencies or interest rates.

Employees and Remuneration Policy

For the financial year ended 30 April 2011, the Target Group did not have any employees and thus no remuneration expenses were incurred.

Personnel that assist the Target Group to handle project and property management, financial reporting and daily operations were hired by companies controlled by Fine Elite. Such operating costs were reflected in the Target Group's book as project management fee, which was capitalized as part of the construction cost as at the year-end date.

Acquisition and Disposal of Subsidiaries

As at 30 April 2011, the Target Group had not entered into any material acquisitions and/or disposals of any its subsidiaries and associated companies.

Segment Information

The Target Group has only one operating segment which is property leasing, no segment information is presented other than the entity-wide information.

Significant Investment

As at 30 April 2011, the Target Group had investment properties of HK\$300,000,000. Save as disclosed above, the Target Group neither had any other significant investments nor any future plans for material investments or capital assets.

Prospects for New Business

For the financial year ended 30 April 2011, the Target Group did not have any new business including new products and services introduced or announced.

LETTER FROM THE BOARD

(iii) For the financial year ended 30 April 2010

Results

For the financial year ended 30 April 2010, no revenue was recorded by the Target Group.

Liquidity and Financial Resources

As at 30 April 2010, the Target Group's total liabilities to total assets ratio was approximately 75.38%.

The Target Group mainly relies upon its cash and bank balances on hand, bank borrowings and intercompany loans to finance its operations.

Pledge of Assets

As at 30 April 2010, the Target Group had pledged properties, plant and equipment and construction in progress to secure the term loan facility. The aggregate carrying value of the pledged assets was HK\$143,640,000.

Contingent Liabilities and Capital Commitments

The Target Group did not have any significant contingent liabilities and capital commitment as at 30 April 2010.

Exposure to Fluctuations in Exchange Rates and Interest Rates and Corresponding Hedging Arrangements

The Target Group's bank borrowings were made at floating rates. The Target Group mainly works in RMB. The exchange rate for the foresaid currency is relatively stable. The Target Group reviews the exchange risk regularly and closely monitors the fluctuations of foreign currencies and will make proper adjustments if necessary. The Target Group has no hedging arrangements for foreign currencies or interest rates.

Employees and Remuneration Policy

For the financial year ended 30 April 2010, the Target Group did not have any employees and thus no remuneration expenses were incurred.

Personnel that assist the Target Group to handle project and property management, financial reporting and daily operations were hired by companies controlled by Fine Elite. Such operating costs were reflected in the Target Group's book as project management fee, which was capitalized as part of the construction cost as at the year-end date.

LETTER FROM THE BOARD

Acquisition and Disposal of Subsidiaries

As at 30 April 2010, the Target Group had not entered into any material acquisitions and/or disposals of any its subsidiaries and associated companies.

Segment Information

The Target Group has only one operating segment which is property leasing, no segment information is presented other than the entity-wide information.

Significant Investment

As at 30 April 2010, the Target Group had investment properties under construction of HK\$143,640,000. Save as disclosed above, the Target Group neither had any other significant investments nor any future plans for material investments or capital assets.

Prospects for New Business

For the financial year ended 30 April 2010, the Target Group did not have any new business including new products and services introduced or announced.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP AND THE TARGET GROUP

Following the Acquisition Completion, the Group will continue to focus on the development of Kwun Tong Project which is expected to be completed in 2013. The Kwun Tong Project is the first property re-development project of the Group. The Company will adopt a business model on repositioning and value enhancement of properties with a focus on commercial projects in prime locations in both Hong Kong and the PRC. With the strong cash position of the Group, the Group may acquire suitable properties in the future for refurbishment and re-packaging for subsequent sale at a higher value. The Company is looking for other property development projects which can bring in rental income and also possess capital gain potential.

The Company also considers the prospect of real estate-related investment business is good and accordingly intends to expand and strengthen its existing real estate-related businesses. KLR Hong Kong is now a subsidiary of the Company and provides an investment opportunity and involvement in the real estate investment and fund management and asset management business in the PRC, which can bring in additional investment income and also capital gain potential.

A member of the Group has also entered into an agreement with an independent third party in April 2012 regarding an exclusive right to sell and distribute marble-based and quartz-based stone composite surfaces products in the PRC. This business can bring in a stable and sustainable income with potential growth.

LETTER FROM THE BOARD

Regarding the Target Group, the Group expects to increase the rental yield of the Land by upgrading its existing buildings through renovation, fitting-out and furnishing works and other improvements to the greenery, amenities and interior of the existing buildings in order to bring in increased rental income through the leasing of the buildings thereon and subsequently, to provide capital gain to the Group during the sales of such buildings at a later stage.

The Directors expect that the financial position of the Group would remain solid taking into account the financial resources available to and the strong assets base of the Group (including the Target Group).

LISTING RULES IMPLICATIONS

Pursuant to Rule 14.22 of the Listing Rules, the formation of Kings Haul by subscription of KH Shares, the Acquisition and the entering into the Kings Haul Shareholders' Agreement, the SP Agreement and the Power City Shareholders' Agreement will be aggregated and treated as if they were one transaction. As one of the applicable percentage ratios in respect of the aggregate of the subscription amount paid by Best Key and KLR Hong Kong for shares in Kings Haul, the capital commitment of Best Key under the Kings Haul Shareholders' Agreement, the Consideration, the Kings Haul Additional Payment and such other transaction fees to be incurred by Kings Haul and/or Power City for the transactions contemplated under the Kings Haul Shareholders' Agreement, the SP Agreement and the Power City Shareholders' Agreement calculated by reference to Rule 14.07 of the Listing Rules, are 25% or more but less than 100%, the entering into of the Kings Haul Shareholders' Agreement, the SP Agreement and the Power City Shareholders' Agreement constitutes a major transaction for the Company under Rule 14.06(3) of the Listing Rules and is therefore subject to the announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As a Condition Precedent to the SP Agreement, Bestlinkage and KLR Shanghai entered into the Asset Management Agreement on 1 August 2012 prior to the Acquisition Completion. Since Power City has become a non-wholly subsidiary of the Company after the Acquisition Completion which took place on 14 August 2012 and Fine Elite is a substantial shareholder of Power City, Fine Elite has become a connected person of the Company following the Acquisition Completion. In accordance with the provisions of the Power City Shareholders Agreement, Fine Elite is able to control the composition of a majority of the board of directors of Bestlinkage prior to the Buy-Out Completion. Accordingly, Bestlinkage is an associate of Fine Elite prior to the Buy-Out Completion and the transactions contemplated under the Asset Management Agreement have become continuing connected transactions following the Acquisition Completion.

Pursuant to Rule 14A.41 of the Listing Rules, where a listed issuer has entered into an agreement involving continuing transactions and such transactions subsequently become continuing connected transactions, the listed issuer must, immediately upon becoming aware of this fact, comply with all applicable reporting, annual review and disclosure requirements under Chapter 14A of the Listing Rules. As all the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the annual consideration payable by Bestlinkage under the Asset Management Agreement are less than 1% and the

LETTER FROM THE BOARD

transaction is a connected transaction only because it involves a person who is a connected person of the Company by virtue of its relationship with the Company's subsidiary, pursuant to Rule 14A.33(3)(b) of the Listing Rules, the transactions contemplated under the Asset Management Agreement are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In accordance with Rule 14A.41 of the Listing Rules, upon any variation or renewal of the Asset Management Agreement, the Company shall comply with all applicable reporting, annual review, disclosure and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.12A(1)(b) of the Listing Rules, for the purpose of Chapter 14A of the Listing Rules, a non wholly-owned subsidiary will not be regarded as a connected person by virtue of being an associate of any connected persons connected at the level of an issuer's subsidiaries only. Since Fine Elite is only a connected person by virtue of being a substantial shareholder of Power City, a non wholly-owned subsidiary of the Company, Fine Elite is a connected person connected at the level of the Company's subsidiary. Although Power City is an associate of Fine Elite due to Fine Elite's 30% interest in Power City, Power City is not regarded as a connected person because it is an associate of a connected person (Fine Elite) connected at the level of the Company's subsidiary only pursuant to Rule 14A.12(1)(b) of the Listing Rules. Accordingly, the transactions contemplated under the investment management agreement (which is entered into between Power City and Kailong Investment) would not constitute continuing connected transactions under Chapter 14A of the Listing Rules.

WRITTEN APPROVAL

Pursuant to Rule 14.44 of the Listing Rules, Shareholders' approval may be obtained by written Shareholders' approval without the need of convening a general meeting if (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Kings Haul Shareholders' Agreement, the SP Agreement, the Power City Shareholders' Agreement and the transaction contemplated thereunder; and (ii) written approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% in nominal value of the issued share capital of the Company giving the right to attend and vote at general meetings to approve the Kings Haul Shareholders' Agreement, the SP Agreement, the Power City Shareholders' Agreement and the transactions contemplated thereunder.

So far as the Company is aware, none of the Shareholders are materially interested in the Kings Haul Shareholders' Agreement, the SP Agreement, the Power City Shareholders' Agreement and the transactions contemplated thereunder. As such, no Shareholder is required to abstain from voting if a general meeting were to be convened to approve the Kings Haul Shareholders' Agreement, the SP Agreement, the Power City Shareholders' Agreement and the transactions contemplated thereunder.

As at the date of the Written Approval, Mr. Chan (through Tiger Crown) and Mr. Li and Ms. Li (through Scenemay Holdings) were regarded as a group of controlling Shareholders acting in concert to exercise their voting rights in the Company, pursuant to the provisions of the SFO, each of them was deemed to be interested in the 194,208,000

LETTER FROM THE BOARD

Shares beneficially or deemed to be owned by each other. Tiger Crown, Scenemay Holdings, Mr. Chan, Mr. Li and Ms. Li together were therefore interested in a total of approximately 40.68% of the issued share capital of the Company. Mr. Ng (an existing executive Director), Mr. Leung and Mr. Wong (who were ex-Directors) were interested in 84,000,000 Shares (representing approximately 17.59% of the issued share capital of the Company), 34,272,000 Shares (representing approximately 7.18% of the issued share capital of the Company) and 20,520,000 Shares (representing approximately 4.30% of the issued share capital of the Company) respectively. As none of Mr. Chan, Tiger Crown, Mr. Li, Ms. Li, Mr. Leung, Mr. Ng and Mr. Wong have any material interest in the Kings Haul Shareholders' Agreement, the SP Agreement, the Power City Shareholders' Agreement and the transactions contemplated thereunder other than through their interest in the Shares and the Company has obtained the Written Approval from Tiger Crown, Scenemay Holdings, Mr. Leung, Mr. Ng and Mr. Wong, being a closely allied group of the Shareholders who collectively held an aggregate of 333,000,000 Shares (representing approximately 69.75% of the issued share capital of the Company) as at the date of the Written Approval, no extraordinary general meeting of the Company will be convened for the purpose of approving the Kings Haul Shareholders' Agreement, the SP Agreement, the Power City Shareholders' Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, Mr. Chan (through Tiger Crown) and Mr. Li and Ms. Li (through Scenemay Holdings) were regarded as a group of controlling Shareholders acting in concert to exercise their voting rights in the Company, pursuant to the provisions of the SFO, each of them was deemed to be interested in the 194,208,000 Shares beneficially or deemed to be owned by each other. Tiger Crown, Scenemay Holdings, Mr. Chan, Mr. Li and Ms. Li together were therefore interested in a total of approximately 40.68% of the issued share capital of the Company. Mr. Ng (an existing executive Director), Mr. Leung and Mr. Wong (who were ex-Directors) were interested in 84,000,000 Shares (representing approximately 17.59% of the issued share capital of the Company), 42,037,000 Shares (representing approximately 8.80% of the issued share capital of the Company) and 12,755,000 Shares (representing approximately 2.67% of the issued capital of the Company) respectively.

PRINCIPAL ACTIVITIES OF THE PARTIES

The Group is a real estate development, real estate investment, fund management and asset management company operating in Hong Kong and the PRC.

China Real is an investment holding company owned by an independent third party investor.

KLR Hong Kong is principally engaged in fund management, real estate investment and asset management business in the PRC.

Fine Elite's principal business is investment holding.

LETTER FROM THE BOARD

RECOMMENDATION

The Board (including the independent non-executive Directors) considers that each of the Kings Haul Shareholders' Agreement, the SP Agreement and the Power City Shareholders' Agreement was entered into on normal commercial terms and the terms thereof are fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

Had the Kings Haul Shareholders' Agreement, the SP Agreement and the Power City Shareholders' Agreement and the transactions contemplated thereby been required to be put forward for consideration and approval at a general meeting of the Company, the Board would recommend the Shareholders to approve them.

ADDITIONAL INFORMATION

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

By order of the Board
Rykadan Capital Limited
CHAN William
Chairman

1. THREE YEARS' FINANCIAL INFORMATION

Details of the financial information of the Group for the financial years ended 31 March 2010, 2011 and 2012 are disclosed in the annual reports for the financial years ended 31 March 2010, 2011 and 2012 respectively. All of these financial statements have been published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.rykadan.com.

Since 31 March 2012, the date to which the latest published audited financial statements of the Group were made up, the Group has in July 2012 acquired further interests in KLR Hong Kong through a series of transactions, particulars of which were disclosed in the announcement of the Company dated 11 July 2012 and the circular of the Company dated 28 September 2012. Following such acquisition, the Company's indirect interest in the issued share capital of KLR Hong Kong has increased from representing approximately 21.38% to approximately 41.07%. KLR Hong Kong is a company incorporated in Hong Kong with limited liability. KLR Hong Kong and its subsidiaries are principally engaged in fund management, real estate investment and asset management businesses in the PRC. The aggregate value of the consideration for the acquisition of KLR Hong Kong was US\$8,420,000, which was financed by the Group's internal financial resources. There was no variation to the aggregate of the remuneration payable to and benefits in kind receivable by the directors of KLR Hong Kong in consequence of such acquisition.

2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 August 2012, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding (i) bank borrowings of approximately HK\$480,667,000 comprising a term loan of approximately HK\$479,033,000 secured by the Group's properties under development for sale and unsecured bank borrowings of approximately HK\$1,634,000, (ii) loans from non-controlling shareholders of approximately HK\$108,706,000 which were unsecured, and (iii) contingent liabilities in respect of corporate financial guarantees provide to associates of approximately HK\$1,090,942,000. In addition, the Target Group had outstanding at that date (a) bank borrowings of approximately HK\$92,716,000, which were secured by the Target Group's investments properties, (b) loans from a non-controlling shareholder of the Target Company of approximately HK\$6,606,000 which were unsecured, (c) amounts due to related parties of approximately HK\$29,570,000 which were unsecured, and (d) an amount due to a non-controlling shareholder of Fine Elite of approximately HK\$1,685,000 which was unsecured.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group and the Target Group did not have outstanding at the close of business on 31 August 2012 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

As aforementioned, the total banking facility available for the associates which was guaranteed by the Company is HK\$1,090,942,000 of which HK\$328,317,000 is utilized as at 31 August 2012.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Group including internally generated funds, the available banking facilities and the cash flow impact of the Acquisition and the Buy-Out, the Group will have sufficient working capital to meet its present requirements for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2012, the date to which the latest published audited financial statements of the Group were made up.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in respect of the audited financial information of the Target Group for the purpose of incorporation into this circular.



31 October 2012

The Directors
Rykadan Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Power City Investments Limited (the “Target Company”) and its subsidiary (hereinafter collectively referred to as the “Target Group”) for each of the three years ended 30 April 2012 (the “Relevant Periods”), for inclusion in the circular of Rykadan Capital Limited (formerly known as “Sundart International Holdings Limited”) (the “Company”) dated 31 October 2012 in connection with the major acquisition relating to the acquisition of 70% equity interest in the Target Company (the “Acquisition”), a company incorporated in Hong Kong, for a consideration of RMB58,325,572 (the “Consideration”) (the “Circular”).

The Target Company was incorporated with limited liability in Hong Kong on 27 July 2007. It is an investment holding company. The registered address of the Target Company is Room A, 13/F, Regal Dragon Centre, 149-151 Woosung Street, Kowloon, Hong Kong.

The particulars of the Target Company’s subsidiary are as follows:

Name of subsidiary	Place and date of establishment	Registered capital	Equity attributable to the Target Company as at 30 April			Principal activities
			30 April 2010	2011 and 2012	Date of this report	
美邦啟立光電科技(上海)有限公司	The People’s Republic of China (The “PRC”)	USD10,200,000 (Note)	65.60%	76%	76%	Properties holding
Bestlinkage NHI Co., Ltd. (“Bestlinkage”)	29 November 2007					

Note: The registered capital of Bestlikage was fully paid up on 12th August 2010.

The financial year end date of the Target Company and Bestlinkage are 30 April and 31 December respectively.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

The statutory financial statements of the Target Company for each of the three years ended 30 April 2012 were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and were audited by K S Yu & Co., certified public accountants registered in Hong Kong.

The statutory financial statements of Bestlinkage for each of the three years ended 31 December 2011 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 上海琳方會計師事務所有限公司 (Shanghai Linfang Certified Public Accountants Company Limited), certified public accountants registered in the PRC.

For the purpose of this report, the sole director of the Target Company has prepared the consolidated financial statements of the Target Group for the Relevant Periods (“Underlying Financial Statements”) in accordance with HKFRSs issued by the HKICPA. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Target Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments have been made by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the sole director of the Target Company who approves 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.

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 Target Group as at 30 April 2010, 2011 and 2012 and of the consolidated results and consolidated cash flows of the Target Group for the Relevant Periods.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>NOTES</i>	Year ended 30 April		
		2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Revenue	5	–	–	343
Other income	6	17	30	7
Fair value change on investment properties	11	32,861	96,297	22,372
Administrative expenses		(957)	(2,963)	(9,970)
Finance costs	7	<u>(435)</u>	<u>(3,614)</u>	<u>(9,729)</u>
Profit before taxation		31,486	89,750	3,023
Income tax expense	9	<u>(5,936)</u>	<u>(22,701)</u>	<u>(953)</u>
Profit for the year	8	25,550	67,049	2,070
Other comprehensive income for the year:				
Exchange differences arising on translation		<u>17</u>	<u>5,145</u>	<u>4,313</u>
Total comprehensive income for the year		<u>25,567</u>	<u>72,194</u>	<u>6,383</u>
Profit for the year attributable to:				
Owner of the Target Company		14,064	49,563	1,480
Non-controlling interests		<u>11,486</u>	<u>17,486</u>	<u>590</u>
		<u>25,550</u>	<u>67,049</u>	<u>2,070</u>
Total comprehensive income attributable to:				
Owner of the Target Company		13,686	53,314	5,216
Non-controlling interests		<u>11,881</u>	<u>18,880</u>	<u>1,167</u>
		<u>25,567</u>	<u>72,194</u>	<u>6,383</u>

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>NOTES</i>	As at 30 April		
		2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Non-current assets				
Investment properties	<i>11</i>	143,640	300,000	329,640
Plant and equipment	<i>12</i>	<u>671</u>	<u>535</u>	<u>373</u>
		<u>144,311</u>	<u>300,535</u>	<u>330,013</u>
Current assets				
Amounts due from related parties	<i>13</i>	2,964	2,681	1,605
Prepayments		8	21	136
Bank balances and cash	<i>13</i>	<u>8,804</u>	<u>107</u>	<u>115</u>
		<u>11,776</u>	<u>2,809</u>	<u>1,856</u>
Current liabilities				
Other payables and accruals	<i>14</i>	21,114	23,466	2,068
Amounts due to related parties	<i>14</i>	33,611	32,718	35,375
Bank borrowings – due within one year	<i>15</i>	<u>–</u>	<u>–</u>	<u>11,931</u>
		<u>54,725</u>	<u>56,184</u>	<u>49,374</u>
Net current liabilities		<u>(42,949)</u>	<u>(53,375)</u>	<u>(47,518)</u>
Total assets less current liabilities		<u>101,362</u>	<u>247,160</u>	<u>282,495</u>
Capital and reserves				
Share capital	<i>17</i>	10	47,600	47,600
Reserves		<u>11,931</u>	<u>65,245</u>	<u>70,461</u>
Equity attributable to owner of the Target Company		11,941	112,845	118,061
Non-controlling interests		<u>26,485</u>	<u>45,365</u>	<u>46,532</u>
Total equity		<u>38,426</u>	<u>158,210</u>	<u>164,593</u>
Non-current liabilities				
Deferred tax liabilities	<i>16</i>	5,936	28,950	30,627
Bank borrowings – due after one year	<i>15</i>	<u>57,000</u>	<u>60,000</u>	<u>87,275</u>
		<u>62,936</u>	<u>88,950</u>	<u>117,902</u>
		<u>101,362</u>	<u>247,160</u>	<u>282,495</u>

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owner of the Target Company (Accumulated losses)			Sub-total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Translation reserve HK\$'000	retained profits HK\$'000			
At 1 May 2009	10	594	(2,349)	(1,745)	14,604	12,859
Profit for the year	–	–	14,064	14,064	11,486	25,550
Other comprehensive (expense) income for the year	–	(378)	–	(378)	395	17
Total comprehensive (expense) income for the year	–	(378)	14,064	13,686	11,881	25,567
At 30 April 2010	10	216	11,715	11,941	26,485	38,426
Profit for the year	–	–	49,563	49,563	17,486	67,049
Other comprehensive income for the year	–	3,751	–	3,751	1,394	5,145
Total comprehensive income for the year	–	3,751	49,563	53,314	18,880	72,194
Issue of shares (note 17)	47,590	–	–	47,590	–	47,590
At 30 April 2011	47,600	3,967	61,278	112,845	45,365	158,210
Profit for the year	–	–	1,480	1,480	590	2,070
Other comprehensive income for the year	–	3,736	–	3,736	577	4,313
Total comprehensive income for the year	–	3,736	1,480	5,216	1,167	6,383
At 30 April 2012	<u>47,600</u>	<u>7,703</u>	<u>62,758</u>	<u>118,061</u>	<u>46,532</u>	<u>164,593</u>

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 30 April		
	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES			
Profit before taxation	31,486	89,750	3,023
Adjustments for:			
Interest expenses	435	3,614	9,729
Interest income	(17)	(12)	(7)
Depreciation of plant and equipment	163	171	176
Fair value change on investment properties	<u>(32,861)</u>	<u>(96,297)</u>	<u>(22,372)</u>
Operating cash flows before movements in working capital	(794)	(2,774)	(9,451)
Decrease (increase) in prepayments	4	(12)	(114)
(Decrease) increase in other payables and accruals	<u>(147)</u>	<u>789</u>	<u>(754)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(937)</u>	<u>(1,997)</u>	<u>(10,319)</u>
INVESTING ACTIVITIES			
Payment of construction cost of investment properties	(91,057)	(31,934)	(20,099)
Advance to companies controlled by Fine Elite	(578)	(18)	–
Repayment of advance to companies controlled by Fine Elite	–	3,120	–
Advance to a related company	–	(4,122)	–
Repayment of advance to a related company	555	1,592	1,143
Interest received	<u>17</u>	<u>12</u>	<u>7</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(91,063)</u>	<u>(31,350)</u>	<u>(18,949)</u>

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

	Year ended 30 April		
	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
FINANCING ACTIVITIES			
Issue of new shares	–	47,590	–
New bank borrowings raised	57,000	–	105,171
Repayment of bank borrowings	–	–	(67,465)
Increase in amount due to sole director	391	–	–
Advance from (repayment of advance from) Fine Elite	6,224	(6,994)	–
Advance from companies controlled by Fine Elite	20,773	6,900	1,756
Repayment of advance from companies controlled by Fine Elite	–	(2,334)	(701)
Advance from a related company	5,043	–	–
Increase (decrease) in amounts due to non-controlling shareholders of Fine Elite	9,259	(18,527)	(1,140)
Interest paid	<u>(21)</u>	<u>(2,630)</u>	<u>(8,510)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>98,669</u>	<u>24,005</u>	<u>29,111</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,669	(9,342)	(157)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES	89	645	165
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>2,046</u>	<u>8,804</u>	<u>107</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
represented by bank balances and cash	<u>8,804</u>	<u>107</u>	<u>115</u>

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

The Target Company was incorporated with limited liability in Hong Kong on 27 July 2007, which is wholly owned by Fine Elite Holdings Limited (“Fine Elite”), a company incorporated in the British Virgin Islands. It is an investment holding company. The registered address and principal place of business of the Target Company are Room A, 13/F, Regal Dragon Centre, 149-151 Woosung Street, Kowloon, Hong Kong and No. 2300 Xuanhuang Road, Huinan County, Pudong New District, Shanghai, the PRC.

The functional currency of the Target Company and Bestlinkage is Renminbi (“RMB”), the currency of the primary economic environment in which the Target Company and Bestlinkage operate. For the convenience of the users of the Financial Information, the Financial Information is presented in Hong Kong dollar (“HK\$”).

Pursuant to the shareholders agreement of the Target Company entered into between Fine Elite and Kings Haul Limited (“Kings Haul”), a non-wholly owned subsidiary of the Company, each of Fine Elite and Kings Haul have, in accordance with their respective proportionate shareholdings in the Target Company, arranged funding to the Target Group as shareholders’ loans on the date of completion of the sales and purchase agreement entered into between Fine Elite and Kings Haul in relation to the Acquisition (the “SP Agreement”). The shareholders’ loans are available for settlement of the current liabilities of the Target Group including the current portion of the bank borrowings as at 30 April 2012.

There is a condition in the SP Agreement that the Target Company should purchase the remaining 24% equity interest in Bestlinkage from the non-controlling shareholder of Bestlinkage (the “Buy-Out”) pursuant to the terms and subject to the conditions of a sales and purchase agreement to be entered into by the Target Company and the non-controlling shareholder of Bestlinkage.

In addition, pursuant to the SP Agreement, Fine Elite has agreed to grant Kings Haul an option to have Fine Elite buy back the 70% equity interest in the Target Company from Kings Haul (“Share Buyback Option”). Kings Haul shall be entitled to exercise the Share Buyback Option at any time in the event that the Buy-Out is not completed by the expiry of seven months commencing from the completion of the Acquisition on 14 August 2012 (“Limited Exclusivity Period”).

If the Buy-Out is not completed and Kings Haul exercises the Share Buyback Option, the entire balance of shareholders’ loan from Kings Haul (“Shareholders’ Loan from Kings Haul”) to the Target Group will be transferred to Fine Elite and Fine Elite will repay this amount to Kings Haul together with interest and the Consideration paid for the Acquisition by Kings Haul.

In preparing the Underlying Financial Statements, the sole director of the Target Company has given due and careful consideration to the future liquidity of the Target Group in light of the fact that the Target Group’s current liabilities exceeded its current assets by approximately HK\$47,518,000 as at 30 April 2012. If the Buy-Out is completed during the Limited Exclusivity Period, the shareholders’ loans from Kings Haul and Fine Elite will be sufficient to enable the Target Group to meet in full its financial obligation as they fall due for the foreseeable future. Kings Haul and Fine Elite also agreed not to demand repayment of these shareholders’ loans until the Target Group is able to do so. If the Buy-Out is not completed during the Limited Exclusivity Period, Fine Elite has agreed not to demand repayment of the shareholders’ loan advanced by it to the Target Group upon completion of the Acquisition and the Shareholders’ Loan from Kings Haul transferred to it due to the exercise of the Share Buyback Option until the Target Group is able to do so. Accordingly, the sole director of the Target Company has therefore prepared the Underlying Financial Statements on a going concern basis and accordingly the Financial Information is also prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has consistently applied HKFRSs issued by the HKICPA that are effective for its annual accounting period beginning on 1 May 2011 throughout the Relevant Periods.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

The Target Group has not early applied the following new and revised HKFRSs that have been issued by the HKICPA but are not yet effective at the date of this report:

Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2011 cycle ²
Amendments to HKFRS 1	Government loans ²
Amendments to HKFRS 7	Disclosures – Transfers of financial assets ¹
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities ²
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures ³
HKFRS 9	Financial instruments ³
HKFRS 10	Consolidated financial statements ²
HKFRS 11	Joint arrangements ²
HKFRS 12	Disclosure of interests in other entities ²
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance ²
HKFRS 13	Fair value measurement ²
Amendments to HKAS 1	Presentation of items of other comprehensive income ⁵
Amendments to HKAS 12	Deferred tax – Recovery of underlying assets ⁴
HKAS 19 (Revised 2011)	Employee benefits ²
HKAS 27 (Revised 2011)	Separate financial statements ²
HKAS 28 (Revised 2011)	Investments in associates and joint ventures ²
Amendments to HKAS 32	Offsetting financial assets and financial liabilities ⁶
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine ²

¹ Effective for accounting periods beginning on or after 1 July 2011.

² Effective for accounting periods beginning on or after 1 January 2013.

³ Effective for accounting periods beginning on or after 1 January 2015.

⁴ Effective for accounting periods beginning on or after 1 January 2012.

⁵ Effective for accounting periods beginning on or after 1 July 2012.

⁶ Effective for accounting periods beginning on or after 1 January 2014.

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad and it applies 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 in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The sole director of the Target Company anticipates that HKFRS 13 will be adopted in the Target Group’s consolidated financial statements for the annual period beginning 1 May 2013 and that the application of the new standard may result in more extensive disclosures about fair value measurements of the assets and liabilities reported in the Target Group’s consolidated financial statements.

Amendments to HKAS 1 Presentation of items of 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. 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

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

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 to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The sole director of the Target Company anticipates that the amendments to HKAS 1 will be adopted in the Target Group's consolidated financial statements for the annual period beginning 1 May 2013. Upon adoption, the presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to HKAS 12 Deferred tax – Recovery of underlying assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The sole director of the Target Company anticipates that the amendments to HKAS 12 will be adopted in the Target Group's consolidated financial statements for the annual period beginning 1 May 2012.

The Target Group measures its investment properties using the fair value model. The sole director of the Target Company reviewed the Target Group's investment property portfolios and concluded that the Target Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is expected to be rebutted. Accordingly, the Target Group will continue to recognise deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use. The sole director of the Target Company anticipates that the application of the amendments to HKAS 12 will have no material impact on the results and the financial position of the Target Group.

Other than as described above, the sole director of the Target Company anticipates that the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Target Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Financial Information includes 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 Financial Information has been prepared on the historical cost basis except for investment properties that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on fair value of the consideration given in exchange for goods.

(a) Basis of consolidation

The Financial Information incorporates the financial statements of the Target Company and entity controlled by the Target Company (its subsidiary). Control is achieved where the Target Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

Where necessary, adjustments are made to the financial statements of subsidiary to bring its accounting policies into line with those used by the Target Group.

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

Non-controlling interests in subsidiary are presented separately from the Target Group's equity therein.

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(b) Revenue recognition

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

Rental income is recognised on a straight-line basis over the term of the relevant lease.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(c) Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of 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 disposal or retirement of an item of 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.

(d) Leasing

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 Target Group as lessor

Rental income from operating leases is recognised in profit or loss 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.

(e) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including investment properties under construction for such purposes).

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Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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 its disposals. 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 item is derecognised.

(f) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than its functional currency (“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 each 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.

For the purposes of presenting the Financial Information, the assets and liabilities of group entity with functional currency in RMB are translated into the presentation currency of the Target Group (i.e.HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

(g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(h) 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 as reported in the consolidated statements of 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 liability of the Target Group for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary 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

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises 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.

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 is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

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

(i) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements 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 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 financial assets of the Target Group are mainly loans and receivables.

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. Subsequent to initial recognition, loans and receivables (including amounts due from related parties 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 loan and receivables below).

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Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are 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 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.

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 original effective interest rate.

The carrying amount of all loans and receivables is reduced by the impairment loss directly. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date 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 equity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Target Company after deducting all of its liabilities. Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

Derecognition

The Target Group and the Target Company derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when the Target Group and the Target Company transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 3 above, the sole director of the Target Company has made various estimates based on past experience, expectations of the future and other information. Actual results may differ from these estimates. The key sources of estimation uncertainty that can significantly affect the amounts recognised in the Financial Information are set out below.

Fair value of investment properties under construction

As disclosed in note 11, the Target Group's investment properties are stated at fair value at end of each reporting period based on the valuation performed by an independent qualified professional valuer by reference to market evidence involving certain assumptions. Where there are any changes in the assumptions due to the market condition in the PRC, the estimate of fair value of investment properties may be significantly affected. The fair value of the investment properties under construction was HK\$143,640,000 as at 30 April 2010.

5. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represents the fair value of amounts received and receivable for leasing of properties by the Target Group to outside tenants.

During the year ended 30 April 2012, the Target Group commenced its property leasing business in the PRC after the completion of construction of its investment properties in 2011.

Segment information

The Target Group has only one operating segment which is property leasing and the Target Group's operating results before tax and fair value changes of investment properties are reviewed regularly by the Target Group's chief operating decision maker (i.e. the sole director of the Target Company) to make decisions about resources allocation and performance assessment. As no other discretionary financial information is provided to the Target Group's chief operating decision maker, no segment information is presented other than the entity-wide information.

Information about major customer

During the year ended 30 April 2012, the Target Group's revenue of approximately HK\$343,000 was contributed by its sole tenant in the PRC.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

Geographical information

All non-current assets of the Target Group are located in the PRC.

6. OTHER INCOME

	Year ended 30 April		
	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	17	12	7
Others	–	18	–
	<u>17</u>	<u>30</u>	<u>7</u>

7. FINANCE COSTS

	Year ended 30 April		
	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:			
– bank borrowings wholly repayable within five years	1,237	3,511	5,117
– bank borrowings wholly repayable after five years	–	–	3,393
– amounts due to companies controlled by Fine Elite	414	692	921
– amount due to a related company (note 20)	–	261	252
– amount due to a non-controlling shareholder of Fine Elite	–	31	46
Less: amounts capitalised	<u>(1,216)</u>	<u>(881)</u>	<u>–</u>
	<u>435</u>	<u>3,614</u>	<u>9,729</u>

During the years ended 30 April 2010 and 2011, interest expenses arising on specific loans were capitalised in investment properties under construction.

8. PROFIT FOR THE YEAR

	Year ended 30 April		
	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year has been arrived at after (crediting) charging:			
Director's remuneration (note)	–	–	–
Auditor's remuneration	6	9	54
Depreciation for plant and equipment	163	171	176
Net foreign exchange (gain) loss	<u>–</u>	<u>(14)</u>	<u>13</u>

Note: During the Relevant Periods, no emoluments were paid by the Target Group to the sole director, Yeung Richard Chi Keung, an independent individual to the Company and its subsidiaries, as an inducement to join or upon joining the Target Group or as compensation for loss of office.

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9. INCOME TAX EXPENSE

	Year ended 30 April		
	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000
Deferred tax – current year (note 16)	<u>5,936</u>	<u>22,701</u>	<u>953</u>

No provision for Hong Kong Profits Tax has been made as the Target Company operating in Hong Kong does not have any assessable profit for the Relevant Periods.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and the Implementation Regulation of the EIT Law, the tax rate of Bestlinkage is 25%.

Income tax expense for the Relevant Periods can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	Year ended 30 April		
	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	<u>31,486</u>	<u>89,750</u>	<u>3,023</u>
Taxation at the PRC Enterprise Income Tax rate of 25%	7,872	22,438	756
Tax effect of income not taxable for tax purpose	(4)	(8)	(2)
Utilisation of deductible temporary differences previously not recognised	(2,051)	–	–
Tax effect of expenses not deductible for tax purpose	<u>119</u>	<u>271</u>	<u>199</u>
Income tax expense for the year	<u>5,936</u>	<u>22,701</u>	<u>953</u>

10. DIVIDENDS AND EARNINGS PER SHARE

No dividend has been paid or declared by the Target Company during the Relevant Periods.

No earnings per share information is presented as its inclusion, for purpose of this report, is not meaningful.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

11. INVESTMENT PROPERTIES

	Completed investment properties HK\$'000	Investment properties under construction HK\$'000	Total HK\$'000
FAIR VALUE			
At 1 May 2009	–	19,203	19,203
Exchange adjustments	–	519	519
Construction cost incurred	–	91,057	91,057
Increase in fair value recognised in profit or loss	–	32,861	32,861
	–	143,640	143,640
At 30 April 2010	–	143,640	143,640
Exchange adjustments	–	7,560	7,560
Construction cost incurred	–	52,503	52,503
Transfer upon completion	203,703	(203,703)	–
Increase in fair value recognised in profit or loss	96,297	–	96,297
	300,000	–	300,000
At 30 April 2011	300,000	–	300,000
Exchange adjustments	7,268	–	7,268
Increase in fair value recognised in profit or loss	22,372	–	22,372
	329,640	–	329,640
At 30 April 2012	329,640	–	329,640

The fair value of the Group's investment properties at 30 April 2010, 2011 and 2012 have been arrived at on the basis of a valuation carried out on these dates by Savills Valuation and Professional Services Limited ("Savills"), an independent qualified professional valuer not connected with the Group. The address of Savills is 23/F, Two Exchange Square, Central, Hong Kong. Savills has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The valuation conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties (First Edition 2005) issued by the Hong Kong Institute of Surveyors. As at 30 April 2010, the valuation was arrived at by reference to market evidence of transaction prices for similar properties with similar condition and location and has taken into account the construction cost that would be expected to complete the development. As at 30 April 2011, the valuation was arrived at by reference to market evidence of transaction prices for similar properties with similar condition and location.

All of the Target 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 accounted for as investment properties. The investment properties are situated in Shanghai, the PRC under medium term leases.

As at 30 April 2010, 2011 and 2012, all investment properties of the Target Group were pledged to secure the bank borrowings of the Target Group.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

12. PLANT AND EQUIPMENT

	Motor vehicles <i>HK\$'000</i>
COST	
At 1 May 2009	881
Exchange adjustment	<u>24</u>
At 30 April 2010	905
Exchange adjustment	<u>47</u>
At 30 April 2011	952
Exchange adjustment	<u>24</u>
At 30 April 2012	<u>976</u>
ACCUMULATED DEPRECIATION	
At 1 May 2009	69
Exchange adjustment	2
Provided for the year	<u>163</u>
At 30 April 2010	234
Exchange adjustment	12
Provided for the year	<u>171</u>
At 30 April 2011	417
Exchange adjustment	10
Provided for the year	<u>176</u>
At 30 April 2012	<u>603</u>
CARRYING VALUES	
At 30 April 2010	<u><u>671</u></u>
At 30 April 2011	<u><u>535</u></u>
At 30 April 2012	<u><u>373</u></u>

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Motor vehicles	18%
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APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

13. CURRENT ASSETS

Amounts due from related parties

	As at 30 April		
	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000
Advances to companies controlled by Fine Elite (note i)	2,964	18	18
Advance to a related company (note ii)	—	2,663	1,587
	2,964	2,681	1,605

Notes:

- (i) Advances to companies controlled by Fine Elite are unsecured, non-interest bearing and repayable on demand. During the Relevant Periods, the maximum amounts outstanding from companies controlled by Fine Elite are HK\$2,964,000, HK\$3,138,000 and HK\$18,000 respectively.
- (ii) Advance to a related company, in which the sole director of the Target Company has controlling interest, is unsecured, non-interest bearing and repayable on demand. During the Relevant Periods, the maximum amounts outstanding from this related company are HK\$228,000, HK\$2,879,000 and HK\$3,236,000 respectively.

Bank balances and cash

Bank balances and cash comprise cash and bank balances held by the Target Group with original maturity of three months or less and carry interest at market rates of average of 0.36%, 0.50% and 0.50% for the year ended 30 April 2010, 2011 and 2012 respectively. As at 30 April 2010, 2011 and 2012, included in the bank balances of the Target Group are balances of approximately HK\$7,129,000, HK\$72,000 and HK\$13,000 denominated in United States dollar (“US\$”) respectively.

14. CURRENT LIABILITIES

Other payables and accruals

	As at 30 April		
	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000
Accruals	186	967	213
Amounts due to non-controlling shareholders of Fine Elite	20,928	2,400	1,230
Interest payable to a non-controlling shareholder of Fine Elite	—	31	77
Payables for construction of investment properties	—	20,068	471
Rental deposit received	—	—	77
	21,114	23,466	2,068

As at 30 April 2010, amounts due to non-controlling shareholders of the Fine Elite are unsecured, non-interest bearing and repayable on demand. As at 30 April 2011 and 2012, amount due to a non-controlling shareholder of Fine Elite is unsecured, interest bearing at 5% per annum and repayable on demand.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

Amounts due to related parties

	As at 30 April		
	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to sole director	395	395	395
Amount due to Fine Elite	6,994	–	–
Amounts due to companies controlled by Fine Elite	20,765	25,892	27,346
Amount due to a related company	5,043	5,043	5,043
Interest payable to companies controlled by Fine Elite	414	1,127	2,078
Interest payable to a related company	–	261	513
	<u>33,611</u>	<u>32,718</u>	<u>35,375</u>

Amounts due to sole director and Fine Elite are unsecured, non-interest bearing and repayable on demand.

Amounts due to companies controlled by Fine Elite are unsecured and repayable on demand. As at 30 April 2010, 2011 and 2012, included in the amounts due to companies controlled by Fine Elite are balances of HK\$10,659,000, HK\$18,120,000 and HK\$17,872,000, which are interest bearing at 5% per annum and the remaining balances are non-interest bearing.

As at 30 April 2010, amount due to a related company is unsecured, non-interest bearing and repayable on demand. As at 30 April 2011 and 2012, amount due to a related company is unsecured, interest bearing at 5% per annum and repayable on demand. The sole director of the Target Company has controlling interest in the related company.

15. BANK BORROWINGS

	As at 30 April		
	2010	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The secured bank borrowings are repayable as follows:			
Within one year	–	–	11,931
Over one year but not exceeding two years	–	–	11,931
Over two years but not exceeding five years	57,000	60,000	35,794
Over five years	–	–	39,550
	<u>57,000</u>	<u>60,000</u>	<u>99,206</u>
Amount due within one year under current liabilities	–	–	(11,931)
Amount due after one year	<u>57,000</u>	<u>60,000</u>	<u>87,275</u>

The weighted average effective interest rates per annum (which are also equal to contracted interest rate) of the bank borrowings are as follows:

	As at 30 April		
	2010	2011	2012
Variable-rate borrowings (Note)	<u>5.76%</u>	<u>6.02%</u>	<u>7.05%</u>

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

Note: Represents the benchmark borrowing rate quoted by People's Bank of China (中國人民銀行同期貸款基準利率).

The bank borrowings at 30 April 2010, 2011 and 2012 were secured by the investment properties of Bestlinkage at fair value of HK\$143,640,000, HK\$300,000,000 and HK\$329,640,000 respectively as disclosed in note 11.

During the year ended 30 April 2012, the Target Group had voluntarily early repaid bank borrowing of HK\$61,500,000.

16. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the Relevant Periods.

	Revaluation of properties HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 May 2009	–	–	–
Charge (credit) to profit or loss for the year (note 9)	<u>6,162</u>	<u>(226)</u>	<u>5,936</u>
At 30 April 2010	6,162	(226)	5,936
Charge (credit) to profit or loss for the year (note 9)	24,075	(1,374)	22,701
Exchange adjustment	<u>325</u>	<u>(12)</u>	<u>313</u>
At 30 April 2011	30,562	(1,612)	28,950
Charge (credit) to profit or loss for the year (note 9)	5,593	(4,640)	953
Exchange adjustment	<u>764</u>	<u>(40)</u>	<u>724</u>
At 30 April 2012	<u><u>36,919</u></u>	<u><u>(6,292)</u></u>	<u><u>30,627</u></u>

The Target Group did not have any significant unrecognised deferred tax assets.

17. SHARE CAPITAL

	Number of ordinary shares '000	Share capital HK\$'000
Ordinary shares of HK\$1 each		
Authorised:		
At 1 May 2009, 30 April 2010, 2011 and 2012	<u><u>500,000</u></u>	<u><u>500,000</u></u>
Issued and fully paid		
At 1 May 2009 and 30 April 2010	10	10
Issue of shares (note)	<u>47,590</u>	<u>47,590</u>
At 30 April 2011 and 2012	<u><u>47,600</u></u>	<u><u>47,600</u></u>

Note: On 13 July 2010, the Target Company issued and allotted a total of 47,589,891 ordinary shares at par value of HK\$1 each to the sole shareholder. The new shares rank pari passu with the existing shares in all respect.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

18. OPERATING LEASE COMMITMENTS

The Target Group as lessor

At the end of the reporting period, the Target Group had contracted with a tenant for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	As at 30 April		
	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Within one year	–	–	458
In the second to fifth year inclusive	–	–	648
	<u>–</u>	<u>–</u>	<u>1,106</u>

19. CAPITAL COMMITMENTS

	As at 30 April		
	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the Financial Information	<u>42,952</u>	<u>–</u>	<u>–</u>

20. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the Relevant Periods, the Target Group entered into the following transactions with related parties:

	Year ended 30 April		
	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Project and property management service fee paid/payable to a related company (notes a and b)	–	–	5,996
Interest expenses payable to companies controlled by Fine Elite	414	692	921
Interest expenses payable to a related company (note a)	<u>–</u>	<u>261</u>	<u>252</u>

Notes:

- (a) The sole director of the Target Company has controlling interest in the related company.
- (b) During the year ended 30 April 2010 and 2011, project management fee to a related company of approximately HK\$7,113,000 and HK\$3,087,000 respectively which were capitalised in the investment properties under construction.

As at 30 April 2010, 2011 and 2012, all ordinary shares of the Target Company were pledged to secure a bank borrowing of Fine Elite. The pledge was subsequently released in August 2012.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

(ii) Related party balances

Balances with related parties are disclosed in notes 13 and 14.

(iii) Compensation of key management personnel

No emolument has been paid to the sole director of the Target Company who is also identified as the key management personnel of the Target Group during the Relevant Periods as set out in notes 8.

21. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Target Group consists cash and cash equivalent, borrowings and reserves comprising issued share capital, translation reserve and accumulated losses/retained profits.

The sole director of the Target Company reviews the capital structure regularly. As part of this review, the sole director considers the cost and the risks associated with each class of the capital. Based on recommendations of the sole director, the Target Group will balance its overall capital structure through raising of new capital and the issue and redemption of debt.

22. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 30 April		
	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	<u>11,768</u>	<u>2,788</u>	<u>1,720</u>
Financial liabilities			
Amortised cost	<u>111,725</u>	<u>116,184</u>	<u>136,649</u>

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include amounts due from related parties, bank balances and cash, other payables and accruals, amounts due to related parties and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate credit risks, liquidity risks and market risks are set out below. The sole director of the Target Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

There has been no change to the Target Group's exposure to interest rate risk or the manner in which it manages and measures the risk throughout the Relevant Periods.

The Target Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark borrowing rate as quoted by People's Bank of China arising from the bank borrowings and prevailing market interest rate arising from the bank balances.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of each reporting period. The analysis is prepared assuming the bank borrowings outstanding at the end of each reporting period was outstanding for the whole year. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The sensitivity analysis do not take into account the effect of bank balances because the sole director of the Target Company considers the effect is insignificant.

At the end of each reporting period, if interest rates had been 25 basis points higher/lower and all other variables were held constant, the potential effect on net profit for the year is as follows:

	Year ended 30 April		
	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000
25 basis points higher:			
Increase in interest capitalised in investment properties	143	13	–
Decrease in net profit for the year	<u>–</u>	<u>137</u>	<u>248</u>
25 basis points lower:			
Decrease in interest capitalised in investment properties	143	13	–
Increase in net profit for the year	<u>–</u>	<u>137</u>	<u>248</u>

In the opinion of the sole director of the Target Company, the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of each reporting period does not reflect the exposure during the Relevant Periods.

Currency risk

The Target Group's foreign currency risk is limited to bank balances denominated in currency other than the functional currency of the Target Company. The Target Group currently does not have a foreign currency hedging policy. However, the sole director of the Target Company monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 30 April 2010, 2011 and 2012, the carrying amounts of the Target Group's foreign currency denominated monetary assets were HK\$7,129,000, HK\$72,000 and HK\$13,000 respectively, which represents the US\$ denominated bank balances.

Sensitivity analysis

5% is the sensitivity rate used which represents the Target Group's management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency exchange rates.

As at 30 April 2010, 2011 and 2012 if RMB strengthen/weaken against US\$, with all other variables were held constant, the profit for the years ended 30 April 2010, 2011 and 2012 would be decreased/increased by approximately HK\$356,000, HK\$3,600 and HK\$1,000 respectively.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

In the opinion of the sole director of the Target Company, the sensitivity analysis is unrepresentative of the currency rate risk as the exposure at the end of each reporting period does not reflect the exposure during the Relevant Periods.

Credit risk

At the end of each reporting period, the Target Group's maximum exposure to credit risk which will cause a financial loss to it due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the sole director of the Target Company reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Target Group has concentration of credit risk by geographical location mainly in the PRC. Other than the concentration in advances to companies controlled by Fine Elite and a related company, the Target Group has no other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the daily operation of the Target Group and mitigate the effects of fluctuations in cash flows. The management of the Target Group monitors and reviews periodically the conditions of loan covenants of the existing banking facilities and tries all efforts to comply with the loan covenants.

In preparing the Underlying Financial Statements, the sole director of the Target Company has given due and careful consideration to the future liquidity of the Target Group in light of the fact that the Target Group's current liabilities exceeded its current assets by approximately HK\$47,518,000 as at 30 April 2012.

If the Buy-Out is completed during the Limited Exclusivity Period, the shareholders' loans from Kings Haul and Fine Elite will be sufficient to enable the Target Group to meet in full its financial obligation as they fall due for the foreseeable future. Kings Haul and Fine Elite also agreed not to demand repayment of these shareholders' loan until the Target Group is able to do so. If the Buy-Out is not completed during the Limited Exclusivity Period, Fine Elite has agreed not to demand repayment of the shareholders' loan advanced by it to the Target Group upon completion of the Acquisition and the Shareholders' Loan from Kings Haul transferred to it due to the exercise of the Share Buyback Option until the Target Group is able to do so. Accordingly, the sole director of the Target Company considered that liquidity risk of the Target Group has been significantly reduced.

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

The following tables detail remaining contractual maturity of the Target Group for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average effective interest rate %	Less than 3 months or on demand HK\$'000	3 months to 1 year HK\$'000	1 -5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 30 April 2010							
Other payables and accruals	–	21,114	–	–	–	21,114	21,114
Amounts due to related parties	1.59	33,611	–	–	–	33,611	33,611
Bank borrowings	5.76	–	3,283	68,200	–	71,483	57,000
		<u>54,725</u>	<u>3,283</u>	<u>68,200</u>	<u>–</u>	<u>126,208</u>	<u>111,725</u>

	Weighted average effective interest rate %	Less than 3 months or on demand HK\$'000	3 months to 1 year HK\$'000	1 -5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 30 April 2011							
Other payables and accruals	0.51	23,466	–	–	–	23,466	23,466
Amounts due to related parties	3.54	32,718	–	–	–	32,718	32,718
Bank borrowings	6.02	–	3,612	68,709	–	72,321	60,000
		<u>56,184</u>	<u>3,612</u>	<u>68,709</u>	<u>–</u>	<u>128,505</u>	<u>116,184</u>

	Weighted average effective interest rate %	Less than 3 months or on demand HK\$'000	3 months to 1 year HK\$'000	1 -5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 30 April 2012							
Other payables and accruals	2.97	2,068	–	–	–	2,068	2,068
Amounts due to related parties	3.24	35,375	–	–	–	35,375	35,375
Bank borrowings	7.05	–	18,474	65,488	44,044	128,006	99,206
		<u>37,443</u>	<u>18,474</u>	<u>65,488</u>	<u>44,044</u>	<u>165,449</u>	<u>136,649</u>

APPENDIX II FINANCIAL INFORMATION ON THE TARGET GROUP

(c) **Fair value**

The fair value of financial assets and financial liabilities of the Target Group are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The sole director of the Target Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statements of financial position approximate their fair values.

B. DIRECTORS' REMUNERATION

No remuneration was paid or is payable by the Target Group to the sole director of the Target Company during the Relevant Periods.

C. EVENTS AFTER THE REPORTING PERIOD

No significant event took place subsequent to 30 April 2012.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group or the Target Company have been prepared in respect of any period subsequent to 30 April 2012.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION

TO THE DIRECTORS OF RYKADAN CAPITAL LIMITED

We report on the unaudited pro forma financial information of Rykadan Capital Limited (formerly known as “Sundart International Holdings Limited”) (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the major acquisition (the “Acquisition”) relating to the acquisition of 70% of equity interest in Power City Investments Limited (“Power City”) and the buy-out of 24% equity interest in Bestlinkage NHI Co., Ltd. held by a non-controlling shareholder through Power City might have affected the financial information presented, for inclusion in Appendix III to the circular of the Company dated 31 October 2012 (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set out in Section B of Appendix III to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

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

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

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 March 2012 or any future date.

Opinion

In our opinion:

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

31 October 2012

**B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP****Introduction**

On 21 June 2012, Best Key Limited (“Best Key”), a wholly-owned subsidiary of the Rykadan Capital Limited (the “Company”), Kailong REI Project Investment Consulting (Hong Kong) Co., Limited (“KLR Hong Kong”), a company controlled by an associate of the Company, and China Real Estates Investment Holdings Limited (“China Real”), an independent third party to the Company and its subsidiaries (the “Group”), had subscribed for 8,438 shares (“KH Shares”) of Kings Haul Limited (“Kings Haul”) (representing 84.38% of the issued capital of Kings Haul) at US\$8,438 (equivalent to approximately HK\$66,000), 781 KH Shares (representing 7.81% of the issued capital of Kings Haul) at US\$781 (equivalent to approximately HK\$6,000) and 781 KH Shares (representing 7.81% of the issued capital of Kings Haul) at US\$781 (equivalent to approximately HK\$6,000) respectively.

On 1 August 2012, Best Key, China Real, KLR Hong Kong and Kings Haul had entered into the shareholders agreement in relation to Kings Haul (“Kings Haul Shareholders Agreement”) setting out, amongst others, the manner of management of and shareholders’ financial commitments to Kings Haul for settlement of the Consideration and Kings Haul Additional Payment (both are defined below) in proportion to their respective shareholding in Kings Haul.

On the same date, after entering into the Kings Haul Shareholders Agreement, Kings Haul and Fine Elite Holdings Limited (“Fine Elite”) have entered into a share purchase agreement (the “SP Agreement”) in relation to acquisition of 70% equity interest in Power City Investments Limited (“Power City”), pursuant to which (i) Kings Haul has conditionally agreed to purchase and Fine Elite has conditionally agreed to sell the 70% of the issued share capital of Power City (the “Sales Shares”) at the consideration (the “Consideration”) of RMB58,325,572 (equivalent to approximately HK\$71,216,000) (the “Acquisition”) and (ii) Kings Haul has conditionally agreed to advance a sum of RMB39,851,297 (equivalent to approximately HK\$48,658,000) (the “Kings Haul Additional Payment”) as its pro-rata share of payment contribution to Power City in the form of shareholder loans in accordance with the provisions of the SP Agreement, both subject to further adjustments in accordance with the SP Agreement.

Power City holds 76% equity interest in Bestlinkage NHI Co., Ltd. (“Bestlinkage”) and the remaining 24% equity interest in Bestlinkage is owned by an independent third party (“Local Partner”). It is a condition of the SP Agreement that Power City will undertake the purchase by Power City from the Local Partner of its 24% equity interest in Bestlinkage pursuant to the terms and subject to the conditions of the Buy-Out agreement (the “Buy-Out”). The purchase price for the Buy-Out shall be paid by Power City by means of shareholder loans to be provided by Kings Haul and Fine Elite on a pro-rata basis, subject to a maximum amount of shareholder’s loan to be contributed by Kings Haul for the purpose of the Buy-out and adjustment in accordance with the SP Agreement.

However, the completion of the Buy-Out (“Buy-Out Completion”) is not a condition of the completion of the Acquisition (“Acquisition Completion”).

In consideration of Kings Haul entering into the SP Agreement, Fine Elite has agreed to grant to Kings Haul an option to have Fine Elite buy back the Sales Shares from Kings Haul (“Share Buyback Option”) for an amount equivalent to the Actual Consideration (as defined in the Circular).

In the event that the Share Buyback Option is triggered, Fine Elite shall (1) return to Kings Haul the amounts paid to Fine Elite by Kings Haul under the SP Agreement; (2) instruct the escrow agent to release the amount in the Escrow Account to Kings Haul in full with interest accrued thereon; (3) procure the return to Kings Haul, by Power City, all of the shareholder’s loan paid and/or provided by Kings Haul to Power City and Bestlinkage; (4) pay to Kings Haul interest on the Agreed Amount (as defined in the Circular), all capital expenditures and working capital paid and/or provided by Kings Haul to Power City and Bestlinkage; and (5) reimburse Kings Haul of certain legal fees incurred, each in accordance with the provisions of the SP Agreement.

Kings Haul shall be entitled to exercise the Share Buyback Option at any time in the event that there is no Buy-Out Completion or Power City fails to undertake the Buy-Out such that Power City fails to become the registered and beneficial owner of 100% equity interest of Bestlinkage by the expiry of seven months commencing from the date of the payment of the escrow amount to an escrow agent by Kings Haul pursuant to the SP Agreement and as described in the section headed “The SP Agreement – Terms of arrangement for payment” in the Circular.

Pursuant to the shareholders’ agreement in relation to Power City, entered by Fine Elite and Kings Haul on 1 August 2012 (“Power City Shareholders’ Agreement”), the Power City’s board of directors consists of a maximum number of 3 directors, which shall comprise of 1 director appointed by Fine Elite and 2 directors appointed by Kings Haul. Upon the Acquisition Completion but prior to the Buy-Out Completion, Kings Haul could only appoint 1 director out of 7 directors of the board of directors of Bestlinkage, while Fine Elite could appoint 4 directors. Upon the Buy-Out Completion, Bestlinkage shall have 3 directors, in which the 3 directors appointed by Fine Elite and Kings Haul to the board of directors of Power City shall be appointed by Power City to act as directors of Bestlinkage.

The unaudited pro forma financial information of the Group together with Power City and its subsidiary (hereinafter referred to as the “Enlarged Group”) is prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules to illustrate the effect of the Acquisition and the Buy-Out.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on (i) audited consolidated statement of financial position of the Group as at 31 March 2012, as extracted from the annual report of the Company for the year ended 31 March 2012; and (ii) the consolidated statement of financial position of Power City as at 30 April 2012, as extracted from the accountants report thereon set out in

Appendix II to this Circular, after making pro forma adjustments related to (i) the Acquisition and (ii) the Buy-Out, as if the Acquisition and the Buy-Out had been completed on 31 March 2012.

A narrative description of the pro forma adjustments of the Acquisition, that are (i) directly attributable to the transaction and (ii) factually supportable, is summarised in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group has been prepared by the directors of the Company 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 give a true picture of the financial position of the Group upon completion of the Acquisition or completion of the Buy-Out or of any future date.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

	The Group as at 31.3.2012 HK\$'000	Power City Group as at 30.04.2012 HK\$'000	Pro forma adjustments for the Acquisition HK\$'000		Unaudited pro forma of the Enlarged Group at Acquisition Completion HK\$'000	Pro forma adjustments for the Buy-Out HK\$'000		Unaudited pro forma of the Enlarged Group at Buy-Out Completion HK\$'000			
			(note 1)	(note 2)	(note 3a)	(note 3b,c,d)	(note 4)	(note 5)	(note 6)	(note 7)	(note 8)
Non-current assets											
Property, plant and equipment	27,787	373	(373)				27,787	373			28,160
Investment properties	6,785	329,640	(329,640)				6,785	329,640			320,101
Goodwill	1,510	-					1,510				1,510
Other intangible assets	15,976	-					15,976				15,976
Interest in an associate	23,601	-					23,601				23,601
Investment in an investee	-	-			131,897	(16,324)	115,573	(115,573)			-
Available-for-sale financial assets	15,611	-					15,611				15,611
	91,270	330,013					206,843				404,959
Current assets											
Properties under development for sale	781,355	-					781,355				781,355
Inventories	35,901	-					35,901				35,901
Amount due from a related company	2,100	-					2,100				2,100
Amount due from an investee	-	-				11,244	11,244				-
Trade and other receivables	210,299	1,741	(1,741)				210,299	1,741		(11,244)	212,040
Bills receivable	1,508	-					1,508				1,508
Amount due from customer for contract work	379,385	-					379,385				379,385
Retentions receivable	129,002	-					129,002				129,002
Tax recoverable	3,465	-					3,465				3,465
Restricted bank deposits	-	-		77,050	(37,546)	(17,478)	22,026		(22,026)		-
Bank balances and cash	370,771	115	(102)	(77,050)	13,553		319,335	102	(11,644)	(46,532)	283,300
				12,036					1,818	3,990	880
	1,913,786	1,856					1,895,620			20,983	1,828,056

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP

	The Group as at 31.3.2012 HK\$'000	Power City Group as at 30.04.2012 HK\$'000	Pro forma adjustments for the Acquisition HK\$'000 (note 1) (note 2) (note 3a) (note 3b,c,d)			Unaudited pro forma of the Enlarged Group at the Acquisition Completion HK\$'000 (note 4)	Pro forma adjustments for the Buy-Out HK\$'000 (note 5) (note 6) (note 7) (note 8)			Unaudited pro forma of the Enlarged Group at the Buy-Out Completion HK\$'000
Current liabilities										
Trade and other payables	346,813	2,068	(1,943)	33,670	346,938	1,943			348,881	
Consideration payable to Fine Elite	-	-	(21,651)	(7,490)	33,670		(33,670)		-	
Amounts due to related parties	-	35,375								
Amounts due to customers for contract work	13,768	-							13,768	
Tax payable	25,064	-							25,064	
Bank borrowings	63,880	11,931	(11,931)		63,880	11,931			75,811	
	<u>449,525</u>	<u>49,374</u>			<u>483,320</u>				<u>468,299</u>	
Net current assets (liabilities)	<u>1,464,261</u>	<u>(47,518)</u>			<u>1,412,300</u>				<u>1,359,757</u>	
Total assets less current liabilities	<u>1,555,531</u>	<u>282,495</u>			<u>1,619,143</u>				<u>1,764,716</u>	
Capital and reserves										
Share capital	4,774	47,600		(47,600)	4,774				4,774	
Reserves	945,804	70,461		(70,461)	945,804				945,804	
Equity attributable to owners of the Company/Power City	950,578	118,061			950,578				950,578	
Non-controlling interests	8,096	46,532	(46,532)	30,521	38,629	46,532	(46,532)		38,629	
	<u>958,674</u>	<u>164,593</u>			<u>989,207</u>				<u>989,207</u>	

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP

	The Group as at 31.3.2012 HK\$'000	Power City Group as at 30.04.2012 HK\$'000	Pro forma adjustments for the Acquisition HK\$'000			Unaudited pro forma of the Enlarged Group at the Acquisition Completion HK\$'000	Pro forma adjustments for the Buy-Out HK\$'000			Unaudited pro forma of the Enlarged Group at the Buy-Out Completion HK\$'000
			(note 1)	(note 2)	(note 3a) (note 3b,c,d)	(note 4)	(note 5)	(note 6)	(note 7)	(note 8)
Non-current liabilities										
Bank borrowings	497,623	87,275		(87,275)		497,623	87,275			584,898
Amounts due to non-controlling shareholders	98,212	-	12,036		13,553 7,490	131,291		1,818	3,990 20,983	158,962 880
Deferred tax liabilities	1,022	30,627	(30,627)			1,022	30,627			31,649
	596,857	117,902				629,936				775,509
	1,555,531	282,495				1,619,143				1,764,716

Notes:

1. The adjustment represents aggregate capital contribution to Kings Haul by its two non-controlling shareholders, i.e. China Real and KLR Hong Kong (the “NCIs of Kings Haul”), as more fully detailed in the section of Introduction to this report.
2. Pursuant to the SP Agreement, Kings Haul shall pay the HK\$ equivalent of RMB63,104,000 (equivalent to approximately HK\$77,050,000) (“Escrow Amount”) into an escrow account (“Escrow Account”) held by an independent escrow agent. The adjustments reflect such Escrow Amount recognised as restricted bank deposits on the consolidated statement of financial position of the Enlarged Group.

Pursuant to the Kings Haul Shareholders Agreement, each of Best Key, China Real and KLR Hong Kong shall arrange financing, in accordance with their respective shareholdings in Kings Haul, for Kings Haul to pay the Consideration and the Kings Haul Additional Payments in line with the provisions of the SP Agreement by ways of shareholders’ loans. The adjustment of approximately HK\$12,036,000 (comprised of approximately HK\$6,018,000 each from NCIs of Kings Haul) represents the proportionate shareholders’ loan advanced by China Real and KLR Hong Kong to Kings Haul.

3. Upon the Acquisition Completion and prior to the Buy-Out Completion, the board of Power City shall consist of 3 directors, which comprise of 1 director appointed by Fine Elite and 2 directors appointed by Kings Haul. However, the board of Bestlinkage shall have 7 directors and Power City has the right to appoint 5 directors, or which Kings Haul and Fine Elite is entitled to nominate 1 director and 4 directors respectively for Power City. The directors of the Company after considering, amongst others, the board representation of the Group, are of the view that the Group is able to obtain control over Power City but unable to obtain control over Besklinkage upon the Acquisition Completion but prior to the Buy-out Completion.
 - (a) The adjustments represent (i) the de-consolidation of the assets and liabilities of Bestlinkage upon the Acquisition Completion but prior to the Buy-Out Completion amounting to approximately HK\$178,429,000 (comprising of net assets attributable to Power City of approximately HK\$131,897,000 and net assets attributable to non-controlling shareholder of Bestlinkage of approximately HK\$46,532,000), and (ii) the recognition of 76% equity investment in Bestlinkage amounted to approximately HK\$131,897,000 that is recognised as available-for-sale equity investment – investment in an investee (“AFS”) in the unaudited pro forma consolidated statement of financial position.
 - (b) The adjustments represent the (i) acquisition of 70% equity interest in Power City and (ii) the recognition of the 30% non-controlling interest in Power City amounted to approximately HK\$30,521,000, both of which are estimated as follows:

		Equivalent to
Consideration for acquisition of 70% – equity interest in Power City	<u>RMB58,325,572</u>	<u>HK\$71,216,000</u>
Assumed net assets in Power City after deconsolidation of Bestlinkage set out in 3(a) as at 30 April 2012		HK\$118,061,000
Less: adjustment to AFS		<u>(HK\$16,324,000)</u>
Adjusted assumed net assets		<u>HK\$101,737,000</u>

	Equivalent to
Represented by:	
Attributable to the Enlarged Group	HK\$71,216,000
Attributable to non-controlling interest (note)	<u>HK\$30,521,000</u>
	<u><u>HK\$101,737,000</u></u>

Note:

The non-controlling interest of HK\$30,521,000 represented 30% interest on assets and liabilities of Power City attributable to Fine Elite as at 30 April 2012.

In the opinion of the directors of the Company, the above acquisition did not constitute a business combination in accordance with HKFRS 3 “Business Combination” and as such, the acquisition has been accounted for as an acquisition of assets and liabilities through acquisition of a subsidiary.

- (c) The adjustments represent payment of Consideration from the Escrow Account of RMB30,749,892 (equivalent to approximately HK\$37,546,000) in accordance with the terms of the SP Agreement on the date of Acquisition Completion comprising:
- (i) an amount equivalent to RMB13,515,270 (equivalent to approximately HK\$16,503,000), as partial payment of the Consideration, is released from the Escrow Account to Fine Elite, which must be used to repay a bank loan owed by Fine Elite and guaranteed by Power City.
 - (ii) an amount of RMB6,134,622 (equivalent to approximately HK\$7,490,000), as partial payment of the Consideration, is released from the Escrow Account as shareholders’ loan contributed by Fine Elite to Power City (recognised as addition to amounts due to non-controlling shareholders), with which Fine Elite shall apply towards, the repayment of Fine Elite’s portion (30%) of the KLR Loan (as defined in the Circular) owed by Bestlinkage to a subsidiary of KLR Hong Kong and the repayment of part of the Intercompany Loans (as defined in the Circular) (recognised as reduction of amounts due to related parties). On 31 March 2012, the KLR Loan was not made available to Bestlinkage, therefore, for the purpose of preparing the unaudited pro forma financial information of the Enlarged Group, the whole amount was assumed to be applied towards the repayment of part of the Intercompany Loans.
 - (iii) Kings Haul shall, according to the decision of the board of Power City, instruct the Escrow Agent to release, in a lump sum or by installments, of up to an amount of RMB11,100,000 (equivalent to approximately HK\$13,553,000) from the Escrow Account to Power City, as partial payment of the Consideration, towards the capital expenditure and/or working capital reserve of Power City, as shareholder’s loan contributed by Fine Elite to Power City.
- (d) The adjustment for consideration payable to Fine Elite for settlement of the remaining portion of the Consideration amounted to HK\$33,670,000, which pursuant to the SP Agreement, should be paid in the following manner on the date of Buy-Out Completion. In the opinion of the directors of the Company, Kings Haul has contractual obligation to pay the remaining Consideration in relation to the acquisition of 70% equity interest in Power City even if the Company chooses not to exercise the Share Buyback Option in the case when Buy-Out was not completed in accordance with the terms and conditions as set out in the SP Agreement and the amount is recognised as a consideration payable to Fine Elite in the unaudited pro forma consolidated statement of financial position of the Enlarged Group upon Acquisition Completion.
- (i) subject to the reduction as set out in the section headed “The SP Agreement – Reimbursement of the Excess Kings Haul Buy-Out Contribution” in this Circular, an amount equivalent to RMB18,039,990 (equivalent to approximately HK\$22,026,000) (the “Fine Elite Released Amount”), as partial payment of the Consideration, shall be released from the Escrow Account partly to Power City and partly to Fine Elite. Such amount released to Power City, subject to the final consideration of the Buy-Out, will be deemed as shareholder loan contributed by Fine

Elite to fulfill its part of funding for the payment (or partial payment) of the Buy-Out and the outstanding Intercompany Loans. The maximum shareholder's loan to be contributed by Kings Haul to Power City for the purpose of the Buy-Out RMB20,924,820 pursuant to the SP Agreement.

- (ii) an additional amount equivalent to RMB9,535,690 (equivalent to approximately HK\$11,644,000) shall be paid by Kings Haul to Fine Elite, as payment of the balance of the Consideration, part of which Fine Elite shall apply towards the partial payment for the Buy-Out as required to be contributed by Fine Elite, if needed.

4. The adjustments represent the partial payment of Kings Haul Additional Payment from the Escrow Account in accordance with the terms of the SP Agreement on the date of Acquisition Completion:

According to the SP Agreement, an amount equivalent to RMB14,314,118 (equivalent to approximately HK\$17,478,000) is released from the Escrow Account as shareholder loans contributed by Kings Haul to Power City, for the partial repayment of the Intercompany Loans and Kings Haul's portion (70%) of the KLR Loan owed by Bestlinkage to a subsidiary of KLR Hong Kong (as defined in the Circular).

On 31 March 2012, the KLR Loan was not made available to Bestlinkage, therefore, for the purpose of preparing the unaudited pro forma financial information of the Enlarged Group, the whole amount was assumed to be applied towards the repayment of part of the Intercompany Loans, including (i) HK\$6,234,000 owed by Power City to companies controlled by Fine Elite and a related company, and (ii) HK\$11,244,000 owed by Bestlinkage to companies controlled by Fine Elite, which is recorded as advance to Bestlinkage upon the Buy-Out Completion.

5. The adjustments are to consolidate the assets and liabilities of Bestlinkage upon the Buy-Out Completion under assets acquisition method as the directors of the Company of the opinion that the above acquisition did not constitute a business combination in accordance with HKFRS 3 "Business Combination" and as such, the acquisition has been accounted for as an acquisition of assets and liabilities through acquisition of a subsidiary. The cost of approximately HK\$115,573,000 (representing the de-recognition of the cost of investment in an investee) is allocated to the individual identifiable asset and liabilities of Bestlinkage on the basis of their assumed fair values as of the date of Buy-Out Completion. The difference between HK\$115,573,000 and HK\$131,897,000 (representing the carrying amount of the net assets of Bestlinkage attributable to Power City, which has been de-consolidated upon the Acquisition Completion according to the basis as set out in note 3(a)), is adjusted to investment properties for the purposes of determining the assumed fair value of investments properties and preparing the unaudited pro forma financial information of the Enlarged Group. The assumed fair values of the identifiable assets and liabilities of Bestlinkage will be re-assessed at the completion date of the Buy-Out and is therefore subject to change.

Upon the Buy-out Completion, the board of Power City shall consist of 3 directors, which comprise of 1 director appointed by Fine Elite and 2 directors appointed by Kings Haul. The board of Bestlinkage shall have 3 directors and all directors shall be appointed by Power City. The directors of the Company after considering, amongst others, the board representation of the Group, are of the view that the Group is able to obtain control over Power City and Bestlinkage upon the Buy-out Completion.

6. The adjustments are to reflect the settlement of the consideration payable to Fine Elite amounted to HK\$33,670,000. According to terms of the SP Agreement as stated in note 3(d), RMB18,039,990 (equivalent to approximately HK\$22,026,000) should be released from the Escrow Account and an additional cash payment of RMB9,535,690 (equivalent to approximately HK\$11,644,000) shall be paid by Kings Haul to Fine Elite. The adjustment of HK\$1,818,000 (comprised of approximately HK\$909,000 each from NCIs of Kings Haul) represents the proportionate shareholders' loan to be advanced by China Real and KLR Hong Kong to Kings Haul for the additional cash payment by Kings Haul of HK\$11,644,000 pursuant to financing arrangement as set out in the Kings Haul Shareholders Agreement.

7. (a) The adjustment reflects the effect of Buy-Out. Pursuant to the SP Agreement, Kings Haul shall contribute its pro rata share of shareholder loans to Power City, as payment by Kings Haul on a pro-rata basis for payment of the purchase price for the Buy-Out (“Kings Haul Buy-Out Contribution”), subject to adjustment in accordance with the SP Agreement. Fine Elite and Kings Haul have agreed that the maximum shareholder’s loan to be contributed by Kings Haul to Power City for the purpose of the Buy-Out shall be RMB20,924,820 (equivalent to approximately HK\$25,549,000).

Carrying amount of 24% of net assets of Bestlinkage as at 30 April 2012	HK\$46,532,000
Less: Kings Haul Buy-Out Contribution	<u>(HK\$25,549,000)</u>

Assumed contribution from Fine Elite for the Buy-Out	<u>HK\$20,983,000</u>
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- (b) The adjustments of HK\$3,990,000 (comprised of approximately HK\$1,995,000 and HK\$1,995,000 from China Real and KLR Hong Kong respectively), represent the proportionate shareholders’ loan advanced by China Real and KLR Hong Kong to Kings Haul for the additional cash payment by Kings Haul of approximately HK\$25,549,000.
8. The adjustment represents (i) elimination of Intercompany Loans between Kings Haul and Bestlinkage amounted to approximately HK\$11,244,000, and (ii) the settlement of Intercompany Loans through shareholders’ loan. Pursuant to the SP Agreement, upon the Buy-Out completion, an amount equivalent to RMB4,612,359 (equivalent to approximately HK\$5,632,000) shall be paid by Kings Haul to Power City as shareholder’s loan contributed by Kings Haul, for repayment of the balance of the Intercompany Loans. The adjustments of HK\$880,000 (comprised of approximately HK\$440,000 and HK\$440,000 from China Real and KLR Hong Kong respectively), represent the proportionate shareholders’ loan advanced by China Real and KLR Hong Kong to Kings Haul for the additional cash payment by Kings Haul of HK\$5,632,000.
9. In preparation of the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the directors of the Company estimated the professional fee directly attributable to the Acquisition and the Buy-Out would be insignificant. The actual amount will be different and therefore subject to change upon completion of the Acquisition and the Buy-out.

Amounts denominated in Renminbi and United States dollar in the pro forma financial information of the Enlarged Group have been translated into Hong Kong dollars at RMB1 : HK\$1.221 and US\$1 : HK\$7.8, respectively, prevailing at the close of business on 31 August 2012. No representation is made that RMB or United States dollar amounts have been, could have been or could be converted to HK\$, or vice versa, at the rates applied or at any other rates or at all.

For the purposes of the unaudited pro forma financial information of the Enlarged Group, no adjustment have been made for transactions/events occurred subsequent to 31 March 2012, including any potential adjustment that may arise after KLR Hong Kong became a non-wholly owned subsidiary of the Company on 30 July 2012.

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with the opinion of value of the Property as at 31 August 2012.



Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

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savills.com

The Directors
Rykadan Capital Limited
Room 1305, 13/F
Shun Tak Centre West Tower
No. 200 Connaught Road Central
Hong Kong

31 October 2012

Dear Sirs,

**RE: AN INDUSTRIAL COMPLEX LOCATED AT NO. 2300 XUANHUANG ROAD,
HUINAN COUNTY, PUDONG NEW DISTRICT, SHANGHAI, THE PEOPLE'S
REPUBLIC OF CHINA (THE "PROPERTY")**

In accordance with the instructions from Rykadan Capital Limited (the "Company") for us to value the Property situated in the People's Republic of China (the "PRC"), we confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of value of the Property as at 31 August 2012 ("date of valuation") for public circular purpose.

Our valuation of the Property is our opinion of its market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In valuing the Property, we have assumed that transferrable land use rights in respect of the Property for specific term at nominal land use fee have been granted and that all requisite land premium payable has been fully settled. We have also assumed that the owner of the Property has an enforceable title to the Property and has free and uninterrupted rights to use, occupy or assign the Property for the whole of the unexpired terms granted.

In valuing the Property which is to be held for investment by the Company, we have adopted the direct comparison method by making reference to comparable market transactions and where appropriate, valued the Property on the basis of capitalization of net rental incomes of the Property derived from the existing tenancy with due allowance for the reversionary income.

We have been provided with extracts of the title documents relating to the Property. However, we have not searched the original documents to ascertain the existence of any amendments that may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Company and its PRC legal adviser, Jingtian & Gongcheng, regarding the title to the Property.

We have relied to a considerable extent on information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, site area, and other relevant information. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been made. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to our valuation. We were also advised that no material facts have been omitted from the information supplied.

We have inspected the exterior and, where possible the interior of the Property. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the Property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

Site inspection of the Property was carried out by Mr. Michael Wu on both 27 and 28 August 2012. He is the member of The Hong Kong Institute of Surveyors.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Our valuation is prepared in compliance with the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts stated in this report are in Renminbi (“RMB”).

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Anthony C K Lau
MRICS MHKIS RPS(GP)
Director

Note: Mr. Anthony C K Lau is a qualified surveyor and has over 19 years’ post-qualification experience in the valuation of properties in both Hong Kong and the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2012
An industrial complex located at No. 2300 Xuanhuang Road, Huinan County, Pudong New District, Shanghai, PRC	<p>The Property comprises an industrial complex erected on a parcel of land with a site area of approximately 34,760.50 sq.m. (374,162 sq.ft.).</p> <p>The Property comprises five 4 to 5-storey industrial buildings and three 1-storey ancillary facilities with a total gross floor area of approximately 52,304.07 sq.m. (563,001 sq.ft.). The Property was completed in May 2010.</p> <p>The land use rights of the Property have been granted for a term of 50 years expiring on 30 December 2056 for industrial use.</p>	<p>As at the date of valuation, a portion of the Property with a total gross floor area of approximately 828.02 sq.m. (8,913 sq.ft.) is subject to a tenancy agreement expiring on 9 July 2014 at a monthly rental of approximately RMB31,000 (exclusive of management fees and outgoings for public utilities).</p> <p>The remaining portion of the Property was vacant.</p>	RMB268,000,000

Notes:

- Pursuant to the State-owned Land Use Rights Grant Contract – Hu Fang Di Nan Hui (2006) Chu Rang He Tong No. 289 dated 31 December 2006 entered into between 上海市南匯區房屋土地管理局 (Shanghai Nanhui Housing & Land Management Bureau) (“Party A”), 上海兩港投資發展有限公司 (Shanghai Lianggang Investment Development Co., Ltd.) (“Party B”), the land use rights of a parcel of land with a site area of approximately 34,761.00 sq.m. was agreed to be granted to Party B for industrial use at the consideration of RMB1,824,953.

Pursuant to two supplementary agreements signed in September 2008 among Party A, Party B and Bestlinkage NHI (Shanghai) Co., Ltd. (“Bestlinkage”), the land use rights under (2006) Chu Rang He Tong No. 289 was transferred by Party B to Bestlinkage.
- Pursuant to the State-owned Land Use Rights Certificate – Hu Fang Di Nan Zi (2009) No. 001404, the land use rights of a parcel of land with a site area of approximately 34,760.50 sq.m. have been granted to Bestlinkage for a term of 50 years expiring on 30 December 2056 for industrial use.
- Pursuant to five Shanghai Certificates of Real Estate Ownership – Hu Fang Di Pu Zi (2010) Nos. 236077 to 236081 issued by Shanghai Housing Security & Administration Bureau and Shanghai Planning, Land & Resources Bureau, the building ownership of the Property with a total gross floor area of approximately 52,304.07 sq.m. have been granted to the Bestlinkage for industrial use.
- Pursuant to the Tenancy Agreement between the Bestlinkage and the ROSLER Surface-Tech (Beijing) Co., Ltd. (“Rosler”), Rosler leased a total gross floor area of approximately 828.02 sq.m. on Level 1 of Block No. 5 for a term of 3 years from 10 July 2011 to 9 July 2014. The monthly rental is RMB31,000 (exclusive of management fees and outgoings for public utilities) for the first year with an increment of 5% per annum.

5. We have been provided with a legal opinion regarding the title to the Property issued by the Company's PRC legal adviser, Jingtian & Gongcheng, which contains, inter alia, the following information:
- i. Bestlinkage has legally obtained the land use rights of the Property and is entitled to occupy and use the land within the term of the land use rights. Apart from the mortgage as mentioned in (iii) below, the Property is not subject to seizure, mortgage and other kind of encumbrances or 3rd party rights;
 - ii. Bestlinkage has legally obtained the building ownership of the buildings of the Property and is entitled to occupy and use such buildings. Apart from the mortgage as mentioned in (iii) below, the Property is not subject to seizure, mortgage and other kind of encumbrances or 3rd party rights;
 - iii. The Property is currently subject to a mortgage in favour of The Industrial and Commercial Bank of China – Nanhui Branch (中國工商銀行南匯支行) with a maximum amount of RMB140,000,000 for a period commencing on 25 July 2011 and expiring on 23 July 2021; and
 - iv. the tenancy agreement of the tenanted portion of the Property is legal, valid and registered.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the “**Model Code**”) to be notified to the Company and the Stock Exchange were as follows:

Long position

Name of Director	Nature of interest and capacity	Total number of shares held as at the Latest Practicable Date	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Mr. Chan	Interest in a controlled corporation ⁽¹⁾	97,104,000	20.34%
	Other interest ⁽²⁾	<u>97,104,000</u>	<u>20.34%</u>
		194,208,000	40.68%
Mr. Ng	Beneficial owner	84,000,000	17.59%

Note:

- The entire issued share capital of Tiger Crown is owned by Mr. Chan. As Mr. Chan controls more than one-third of the voting power in general meetings of Tiger Crown, he is deemed to be interested in the 97,104,000 Shares beneficially owned by Tiger Crown.

2. Since Tiger Crown, Scenemay Holdings, Mr. Chan, Mr. Li, and Ms. Li are regarded as a group of controlling shareholders acting in concert to exercise their voting rights in the Company, pursuant to the provisions of the SFO, each of them is deemed to be interested in the 97,104,000 Shares beneficially owned or deemed to be interested by each other. Tiger Crown, Scenemay Holdings, Mr. Chan, Mr. Li and Ms. Li together are therefore interested in a total of 40.68% of the issued share capital of the Company.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, none of the Directors or the chief executive of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Save as except that Mr. Chan is a director of Tiger Crown, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract or had an unexpired service with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors and their respective associates had any interest in any business which competes or may compete with the business of the Group or the Target Group or had any other conflict of interest with the Group or the Target Group.

5. DIRECTORS INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets acquired or disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 March 2012, the date up to which the latest published audited accounts of the Group were made up; and

- (ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group taken as a whole.

6. LITIGATION

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

7. MATERIAL CONTRACTS

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

- (a) a refurbishment agreement dated 30 November 2010 entered into between Sundart Engineering Services (Macau) Limited (“**Sundart (Macau)**”), a wholly-owned subsidiary of the Company, and Waldo Hotel Limited (“**Waldo**”), a connected person of the Company, whereby Sundart (Macau) agreed with Waldo to undertake certain refurbishment works for one floor of Waldo Hotel, which is located at Av. Da Amizada, the Macau Special Administrative Region of the PRC, at the consideration of HK\$3,000,000;
- (b) a sale and purchase agreement dated 14 June 2011 entered into among SCJREP IV Cayman E, Ltd. (“**SCJREP**”) and Green Capital Group Limited (“**Green Capital**”) as purchasers, Keen Virtue Group Limited (“**Keen Virtue**”), a wholly-owned subsidiary of the Company, as vendor, and the Company as the guarantor of Keen Virtue, whereby SCJREP and Green Capital agreed to purchase and Keen Virtue agreed to sell 35% of its equity interest in and shareholders’ loan to Wit Legend Investments Limited, a wholly-owned subsidiary of Keen Virtue, at the aggregate consideration of HK\$87,850,000;
- (c) a sale and purchase agreement dated 31 August 2011 entered into between Sundart Holdings Limited as vendor and Mr. Leung, an executive Director and Chief Operating Officer of the Company, as purchaser, whereby Mr. Leung agreed to acquire from Sundart Holdings Limited the entire issued share capital of Sundart Development Limited, a wholly-owned subsidiary of the Company, at the total consideration of HK\$4,400,000;
- (d) the sale and purchase agreement dated 16 May 2012 entered into between the Company and Jangho Curtain Wall Hongkong Limited in relation to the disposal of 4,335 shares of US\$1 each in Sundart Holdings Limited by the Company to Jangho Curtain Wall Hongkong Limited;

- (e) the restructuring agreement dated 11 July 2012 entered into between Talent Step Investments Limited (“**Talent Step**”), a wholly-owned subsidiary of the Company, Good Grace Investments Limited (“**Good Grace**”), Borrison (B.V.I.) Limited (“**Borrison**”) and Kailong REI Holdings Limited in respect of the restructuring of shareholdings in Kailong REI Holdings Limited and KLR Hong Kong, pursuant to which, amongst others, Talent Step acquired 2,283 shares in Kailong REI Holdings Limited from Good Grace at the consideration of US\$3,149,000 and was distributed with 246,288 shares in KLR Hong Kong by Kailong REI Holding Limited at the effective consideration of US\$854,000;
- (f) the subscription agreement dated 11 July 2012 entered into between the Talent Step, Good Grace, Borrison, Mr. Cheng Hei Ming, Mr. Ho Chun Tung Ivan, Mr. Stephen Anthony Roth and PAG Real Estate Limited as subscribers (together the “**Subscribers**”) and KLR Hong Kong as the company, pursuant to which each of the Subscribers subscribed for shares in KLR Hong Kong, pursuant to which, amongst others, Talent Step subscribed for 304,333 shares in KLR Hong Kong at the subscription price of US\$5,271,000;
- (g) the shareholders’ deed dated 11 July 2012 entered into between Talent Step, Good Grace, Borrison, Mr. Stephen Anthony Roth, Secured Capital Investment Management Co., Ltd., PAG Real Estate Limited, Mr. Cheng Hei Ming, Mr. Ho Chun Tung Ivan, Ms. Woo Wai Yu and Mr. Geng Ho and KLR Hong Kong in respect of the management of KLR Hong Kong;
- (h) the Kings Haul Shareholders’ Agreement;
- (i) the SP Agreement;
- (j) the Power City Shareholders’ Agreement; and
- (k) the Share Mortgage Agreement.

8. EXPERT AND CONSENT

The qualification of the expert who has given opinion in this circular is as follows:

Name	Qualification
Deloitte Touche Tohmatsu (“ Deloitte ”)	Certified public accountants
Jingtian & Gongcheng	PRC legal adviser
Savills Valuation and Professional Services Limited (“ Savills ”)	Property valuer

As at the Latest Practicable Date, none of the experts named in this paragraph has any shareholding in any member of the Group, or 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 named in this paragraph has any interest, direct or indirect, in any assets which had been, since 31 March 2012, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

9. CONSENTS

Each of Deloitte, Jingtian & Gongcheng and Savills has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report and references to its name and advice or opinion in the form and context in which it appears in this circular.

10. GENERAL

- (a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Hong Kong head office and principal place of business of the Company is situated at Room 1305, 13/F, Shun Tak Centre West Tower, 200 Connaught Road Central, Hong Kong.
- (b) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Yeung Man Yan, Megan, a qualified solicitor in Hong Kong.
- (d) In the event of inconsistency, the English text of the circular and the accompanying form of proxy shall prevail over the Chinese text thereof.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 1305, 13/F, Shun Tak Centre West Tower, 200 Connaught Road Central, Hong Kong during normal business hours on any weekday (except public holidays) for a period of 14 days from the date hereof:

- (a) the memorandum of association and the articles of association of the Company;
- (b) the annual reports of the Company for each of the three financial years ended 31 March 2010, 2011 and 2012;
- (c) the report from Deloitte on the financial information of the Target Group, the text of which is set out in Appendix II to this circular;
- (d) the report from Deloitte on the unaudited pro forma financial information of the enlarged Group, the text of which is set out in Appendix III to this circular;

- (e) the property valuation report on the Land prepared by Savills, the text of which is set out in Appendix IV to this circular;
- (f) the written consent from Deloitte and Jingtian & Gongcheng and Savills referred to in paragraph headed “Consents” in this Appendix;
- (g) each of the material contracts entered into by the Group, as referred to in paragraph headed “Material Contracts” in this Appendix; and
- (h) the circular dated 28 September 2012 of the Company in respect of the acquisition of further interests in KLR Hong Kong.