
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold all your shares in China Assets (Holdings) Limited you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

Subject to the granting of the listing of, and permission to deal in, the Open Offer Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Open Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Open Offer Shares on the Stock Exchange or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. You should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

CHINA ASSETS (HOLDINGS) LIMITED
中國資本(控股)有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 170)

OPEN OFFER BY
CHINA ASSETS (HOLDINGS) LIMITED
ON THE BASIS OF TWO OFFER SHARES
FOR EVERY FIVE SHARES HELD

Capitalised terms used in this cover page have the meanings defined in this Circular.

The latest time for application and payment for the Open Offer Shares is at 4:00 p.m. on Monday, 5 December, 2016. The procedures for application and payment for the Open Offer Shares in assured allotments are set out on page 7 of this Circular and the procedures for application and payment for excess Offer Shares are set out on page 8 of this Circular.

The Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof. Accordingly, the Open Offer may or may not proceed.

Shareholders should note that the Shares have been traded on an ex-entitlement basis from 10 November, 2016 and that dealing in Shares will take place while the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any person dealing in the Shares up to the date on which all conditions of the Open Offer are fulfilled will bear the risk that the Open Offer does not become unconditional and does not proceed.

Shareholders and potential investors should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

21 November, 2016

This circular does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to acquire, Offer Shares in any jurisdiction in which such an offer or solicitation is unlawful.

FORWARD-LOOKING STATEMENTS

Statements in this circular other than statements of historical fact are or may be forward looking statements. In some cases, forward-looking statements may be identified by the use of words such as “might”, “may”, “could”, “would”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “seek”, “continue”, “illustration”, “projection” or similar expressions and the negative thereof.

Forward-looking statements in this circular include, without limitation, statements in respect of the Group’s business strategies, product offerings, market position, competition, financial prospects, performance, liquidity and capital resources, as well as statements regarding trends in the relevant industries and markets in which the Group operates, technological advances, financial and economic developments, legal and regulatory changes and their interpretation and enforcement.

The forward-looking statements in this circular are based on management’s present expectations about future events. Management’s present expectations reflect numerous assumptions regarding the Group’s strategy, operations, industry, developments in the credit and other financial markets and trading environment. By their nature, they are subject to known and unknown risks and uncertainties, which could cause actual results and future events to differ materially from those implied or expressed by forward-looking statements. Should one or more of these risks or uncertainties materialise, or should any assumptions underlying forward-looking statements prove to be incorrect, the Group’s actual results could differ materially from those expressed or implied by forward-looking statements. Additional risks not known to the Group or that the Group does not currently consider material could also cause the events and trends discussed in this circular not to occur, and the estimates, illustrations and projections of financial performance not to be realised. Prospective investors are cautioned that forward-looking statements speak only as at the date of publication of the Offering Documents. Except as required by applicable law, the Group does not undertake, and expressly disclaims, any duty to revise any forward-looking statement in the Offering Documents, be it as a result of new information, future events or otherwise.

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TIMETABLE

The expected timetable of the Open Offer is set out below:—

2016
December

Latest time for application for and payment for the Offer Shares	4:00 p.m. on Monday 5
Latest time for the Open Offer to become unconditional	4:00 p.m. on Thursday 8
Announcement of the results of the Open Offer published	Monday 12
Despatch of certificates for Offer Shares and refund cheques	Tuesday 13
First day of dealings in Offer Shares on the Stock Exchange	9:00 a.m. on Wednesday 14

All times and dates specified in this circular refer to Hong Kong times and dates. Dates and times mentioned in the timetable are indicative only and may be extended or varied. China Assets will make an announcement if there is any change to the above timetable.

DEFINITIONS

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

“AAL”	the letter being issued to the Shareholders in respect of applications for the assured allotments of Shareholders in respect of the Open Offer;
“Application Forms”	the AAL and EAF;
“associates”	the meaning ascribed thereto in the Listing Rules;
“Board”	the board of Directors;
“Business Day”	any day (other than Saturday and Sunday) on which the Stock Exchange is open for the business of dealings in securities;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“Company”	China Assets (Holdings) Limited 中國資本(控股)有限公司, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange;
“Completion”	completion of the Open Offer;
“connected person”	the meaning ascribed thereto in the Listing Rules;
“Director(s)”	director(s) of China Assets;
“EAF”	the form of application for Offer Shares in excess of assured allotments, being issued to the Shareholders;
“Final Application Time”	4:00 p.m. on 5 December 2016 or such other time or date as the Underwriter may agree in writing with China Assets as the last time for application and payment for the Offer Shares;
“Group”	China Assets and its subsidiaries;

DEFINITIONS

“HKSCC”	Hong Kong Securities Clearing Company Limited;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administration Region of the People’s Republic of China;
“Last Trading Day”	31 October 2016;
“Latest Practicable Date”	15 November 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular;
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“New Synergies”	New Synergies Investments Company Limited, a company incorporated in Hong Kong with limited liability and owned by Mr. Lo (as to 40%), his brother Mr. Lao Kaisheng (as to 30%) and his sister Ms. Lao Jiangsheng (as to 30%);
“Offer Shares”	30,703,264 Shares;
“Offering Documents”	this Circular and the Application Forms;
“Open Offer”	the proposed offer of the Offer Shares at the Subscription Price on the basis of an assured allotment for Shareholders of two new Offer Shares for every five Shares held on the Record Date on the terms and subject to the conditions set out in the Offering Documents;
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appeared on the register of members of China Assets at the close of business on the Record Date and whose address(es) as shown on such register is (are) outside Hong Kong;

DEFINITIONS

“Record Date”	16 November 2016 being the date by reference to which entitlements to the Open Offer were determined;
“Registrar”	the share registrar of China Assets in Hong Kong, being Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong;
“Settlement Date”	8 December 2016, (or such other date as the Underwriter and China Assets may agree in writing as the day for settlement of the Open Offer);
“Share(s)”	share(s) of no par value in the share capital of China Assets;
“Shareholder(s)”	holder(s) of Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Price”	HK\$3.95 per Offer Share;
“Underwriter” and “Mr. Lo”	Mr. Lo Yuen Yat, a director of the Company, underwriter of the Underwritten Shares;
“Underwriting Agreement”	the underwriting agreement dated 31 October 2016 entered into between China Assets and Mr. Lo in relation to the underwriting arrangement in respect of the Open Offer;
“Underwritten Offer Shares”	14,097,150 Shares, being all the Offer Shares other than the Offer Shares in the assured allotments of New Synergies and Mr. Lo Yuen Yat, which are fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement;
“US\$”	United States dollars, the lawful currency of the United States;
“%”	per cent.

LETTER FROM THE BOARD

CHINA ASSETS (HOLDINGS) LIMITED
中國資本(控股)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 170)

Directors:

Mr. Lo Yuen Yat (*Chairman*)
Mr. Cheng Sai Wai
Mr. Yeung Wai Kin*
Mr. Zhao Yu Qian*
Ms. Lao Yuan Yuan
Mr. Fan Jia Yan**
Mr. Wu Ming Yu**
Dr. David William Maguire**

Registered office:

19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

* *Non-executive Directors*

** *Independent non-executive Directors*

21 November, 2016

To the Shareholders

Dear Sir or Madam,

China Assets announced on 31 October 2016 that it proposes to raise approximately HK\$121.28 million (before expenses) by issuing 30,703,264 Offer Shares at the Subscription Price of HK\$3.95 per Offer Share payable in full on application, by way of the Open Offer, on the basis of an assured allotment for Shareholders of two new Offer Shares for every five Shares held on the Record Date. The latest time on which transfers were accepted for registration for participation in the Open Offer was 4:30 p.m. on Friday 11 November.

China Assets has no outstanding convertible securities or options in issue or other similar rights which confer any right to convert into or subscribe for Shares as at the date of this circular.

LETTER FROM THE BOARD

Open Offer

Issue Statistics

Basis of the Open Offer Assured allotments of two Offer Shares for every five Shares held on the Record Date

Issued share capital of the 76,758,160 Shares
Company as at the Record Date

Issued share capital of the 107,461,424 Shares
Company immediately after
completion of Open Offer

Subscription Price HK\$3.95 per Offer Share

The Subscription Price represents:

- (i) a discount of approximately 1.25% to the closing price of HK\$4.00 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 1.25% to the average closing price of approximately HK\$4.00 per Share for the five consecutive trading days ended on the Last Trading Day;
- (iii) a discount of approximately 1.32% to the average closing price of approximately HK\$4.003 per Share for the thirty consecutive trading days ended on the Last Trading Day;
- (iv) a discount of approximately 1.00% to the theoretical ex-entitlement price of approximately HK\$3.99 per Share based on the closing price of HK\$4.00 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (v) an amount equal to the theoretical ex-entitlement price of HK\$3.95 per Share based on the closing price of HK\$3.95 per Share as quoted on the Stock Exchange on the Latest Practicable Date.
- (vi) a discount of approximately 80.21% to the unaudited consolidated net asset value per Share of US\$2.5580 (approximately HK\$19.9524 at the exchange rate US\$1.00 = HK\$7.80) as at 31 October 2016 being the unaudited consolidated net asset value last announced before the Latest Practicable Date.

LETTER FROM THE BOARD

Based on the Subscription Price of HK\$3.95 the gross proceeds raised by China Assets from the Open Offer will amount to approximately HK\$121.28 million (before expenses). The Subscription Price was determined after arm's length negotiations between China Assets and the Underwriter with reference to recent market prices of the Shares. The Directors consider the terms of the Open Offer, including the Subscription Price and the underwriting arrangements, to be fair and reasonable and in the best interest of China Assets and the Shareholders as a whole.

Offer to Shareholders only

The Open Offer is available only to Shareholders and China Assets is sending the Application Forms to Shareholders only. The invitation to apply for Offer Shares is not transferable and there will be no trading in entitlements on the Stock Exchange.

Shareholders who do not apply and pay for their full assured allotments of Offer Shares should note that their shareholdings in the Company will be diluted.

The Offering Documents are not and will not be registered or filed under the applicable securities legislation of any jurisdictions and Overseas Shareholders must before applying satisfy themselves that under local laws they are eligible to take part in the Open Offer as explained below. No action has been taken to permit the offering of Offer Shares, or the distribution of this circular or the Application Forms in any territory or jurisdiction outside Hong Kong. Accordingly, no person receiving a copy of this circular or the Application Forms in any territory or jurisdiction outside Hong Kong may treat it as an offer or invitation to apply for Offer Shares, unless in the relevant jurisdiction such an offer or invitation could lawfully be made without compliance with any registration or other legal or regulatory requirements.

It is the responsibility of any person (including but without limitation as principal nominee, agent, custodian and trustee) receiving a copy of the Offering Documents outside Hong Kong and wishing to apply for Offer Shares to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant territory or jurisdiction including the obtaining of any governmental or other consents for observing any other formalities which may be required in such territory or jurisdiction, and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. The Company is not responsible for verifying the qualification of such Overseas Shareholders and/or residents in such territory or jurisdiction. The Company shall not be obliged to issue Offer Shares to any such Overseas Shareholders and/or residents, if at the Company's absolute discretion issuing the Offer Shares to them will or might not comply with the relevant laws of such territory or jurisdiction. Any application by any person will

LETTER FROM THE BOARD

be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been complied with. If you are in any doubt as to your position, you should consult your professional advisers.

Procedures for application and payment

Shareholders may apply for any number of Offer Shares. An AAL is enclosed with this circular which entitles Shareholders to apply for any number of Offer Shares up to the amount of the Offer Shares shown therein. If Shareholders wish to exercise their rights to apply for all Offer Shares specified in the enclosed AAL, Shareholders must lodge the AALs in accordance with the instructions printed thereon, together with a remittance for the full amount payable on application, with the Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by not later than 4:00 p.m. on 5 December 2016. All remittances must be made in Hong Kong dollars by cheques or banker's cashier orders. Cheques must be drawn on an account with, and banker's cashier orders must be issued by, a licensed bank in Hong Kong and **made payable to "China Assets (Holdings) Limited — Provisional Allotment Account"** and **crossed "Account Payee Only"**.

It should be noted that unless the relevant AAL, together with the appropriate remittance, has been lodged with the Registrar by not later than 4:00 p.m. on 5 December 2016 by the relevant Shareholder, the relevant offer will lapse.

The AALs are for use only by the person(s) to whom they are addressed and are not transferable. The AAL contains full information regarding the procedures to be followed if the Shareholders wish to apply for only part of the Offer Shares in their assured allotments. All cheques and banker's cashier orders will be presented for payment immediately upon receipt and all interest earned on such monies, if any, will be retained for the benefit of the Company. Completion and return of an AAL together with a cheque or banker's cashier order in payment for the Offer Shares applied for will constitute a warranty by the applicant that the cheque or banker's cashier order will be honoured on first presentation. If any cheque or banker's cashier order is dishonoured on first presentation, the AAL is liable to be rejected. No receipt will be issued in respect of any application and remittance received.

LETTER FROM THE BOARD

Application for Offer Shares in excess of assured allotments

Shareholders have the right to apply on EAFs for the Offer Shares in excess of their own assured allotments. Any Offer Shares not applied for by the Shareholders in accordance with their assured allotments or created by adding together fractions of Shares in any fractional assured allotments, will be made available for excess applications by the Shareholders. Applications may be made by completing the EAF and lodging it with a separate remittance for the excess Offer Shares being applied for.

Shareholders who apply for Offer Shares in excess of their own assured allotments are not assured of being allocated any Offer Shares, in excess of their assured allotments. The Directors will allocate excess Offer Shares applied for on EAFs at their discretion and on a fair and equitable basis in which excess shares will be allocated to applicants on a pro rata basis with reference to the number of the excess Offer Shares applied for by them.

Reference will only be made to the number of excess Offer Shares being applied for. No reference will be made to the number of Offer Shares applied for in the assured allotments and the existing numbers of Shares held by Shareholders save that preference will be given to applications on EAFs for topping up odd-lot holdings that do not appear to be made with the intention to abuse the preference for applications topping up odd-lot holdings and at the entire discretion of the Company.

Investors with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Offer Shares will not be extended to beneficial owners individually. Shareholders with their Shares held by a nominee should note that the nominee (including HKSCC) is a single Shareholder according to the register of members of the Company.

Application for excess Offer Shares may be made by completing and signing the enclosed EAF in accordance with the instructions printed thereon and lodging it, together with a separate remittance for the full amount payable on application in respect of the excess Offer Shares, applied for with the Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by not later than 4:00 p.m. on 5 December 2016. All remittances must be made in Hong Kong dollars by cheques or cashier orders, and cheques must be drawn on a bank account with, or cashier orders must be issued by, a licensed bank in Hong Kong and **made payable to "China Assets (Holdings) Limited — Excess Application Account"** and **crossed "Account Payee Only"**.

LETTER FROM THE BOARD

All cheques or cashier orders will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of the EAF together with a cheque or cashier order in payment for the excess Offer Shares applied for will constitute a warranty by the applicant that the cheque or cashier order will be honoured on first presentation. If any cheque or cashier order is dishonoured on first presentation, the application is liable to be rejected. No receipt will be issued in respect of any application and remittance received.

Certificates and refund cheques

Subject to the fulfilment of the conditions of the Open Offer, certificates for Offer Shares, if any, and refund cheques in respect of wholly or partially unsuccessful applications for Offer Shares, in excess of assured allotments are expected to be posted on or before 13 December 2016. If the conditions of the Open Offer are not fulfilled and/or waived by the latest time for termination, the Open Offer will not proceed and the application monies, without interest, will be returned to the applicants.

All refunds will be by means of cheques crossed “Account Payee Only” and despatched by ordinary post to applicants’ registered addresses and, in the case of joint applicants, to the registered address of the applicant whose name first appears on the register of members of the Company, at the risk of such applicants.

No Excluded Shareholders

Having made enquiries as required by Rule 13.36(2) of the Listing Rules, the Directors are of the opinion that it is not necessary or expedient on account either of the legal restrictions under the laws of any relevant place or the requirements of the relevant regulatory body or stock exchange in that place to exclude any Shareholders from the Open Offer.

Fractional entitlements to the Offer Shares

Fractions of Offer Shares are not being offered and will not be allotted to Shareholders. Fractional entitlements have been rounded down to the nearest whole number of Offer Shares. Offer Shares created from the aggregation of fractions of the Offer Shares are available for application by the Shareholders on EAFs. Should there be no valid applications on EAFs by Shareholders Offer Shares created by aggregation of fractions of the Offer Shares will be taken up by the Underwriter.

LETTER FROM THE BOARD

Status of the Offer Shares

When issued and fully paid, the Offer Shares will rank pari passu in all respects with the existing Shares. Shareholders of fully-paid Offer Shares will be entitled to receive all dividends and distributions which are declared, made, or paid on after the date of allotment of the Offer Shares.

Application for Listing

China Assets has applied to the Listing Committee for the listing of, and permission to deal in, the Offer Shares. No part of the share capital of China Assets is listed or dealt in on, and no listing or permission to deal in the Shares is being or is proposed to be sought on any stock exchange other than the Stock Exchange.

Offer Shares will be eligible for admission into CCASS

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Offer Shares on the Stock Exchange or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbroker or other professional advisors for details of those settlement arrangements and how such arrangements will affect their rights and interests.

The Offer Shares will have the same board lot size of 5,000 Shares as the existing Shares.

UNDERTAKING

As at the Latest Practicable Date, Mr. Lo, the chairman and an executive Director of China Assets, and the Underwriter, owned 225,000 Shares representing approximately 0.30% of the existing issued share capital of China Assets. He is also the owner of 40% of the issued share capital of New Synergies, the controlling shareholder of the Company. The balance of New Synergies is owned by Mr. Lo's brother and sister. New Synergies owns 41,290,285 Shares representing approximately 53.79% of the existing issued share capital. Mr. Lo has irrevocably undertaken to China Assets that he will apply for the 90,000 Offer Shares he is entitled to apply for on an assured basis under the Open Offer and that New Synergies will apply for the 16,516,114 Offer Shares that it is entitled to apply for on an assured basis under the Open Offer.

LETTER FROM THE BOARD

THE UNDERWRITING AGREEMENT

Date:	31 October 2016
Parties:	Mr. Lo and the Company
Total number of Underwritten Offer Shares:	14,097,150 Offer Shares
Commission:	2% of the Subscription Price of the Underwritten Offer Shares or approximately HK\$1,113,675 based on 14,097,150 Underwritten Offer Shares

Pursuant to the Underwriting Agreement, the Underwriter has agreed to subscribe or procure subscribers to subscribe for all the Offer Shares (other than those in the assured allotments of Mr. Lo and New Synergies) which are not validly applied for by Shareholders, subject to terms and conditions set out in the Underwriting Agreement and in particular the fulfilment or waiver of the conditions contained therein. China Assets will not issue or agree to issue new Shares or other convertible securities between the date of the Underwriting Agreement and Record Date.

The ordinary course of business of the Underwriter does not include underwriting.

China Assets has considered the underwriting arrangements (including the commission rates) of the open offers and rights issues recently conducted by issuers on the Stock Exchange to ensure the terms of the Open Offer, including the underwriting arrangements, are fair and reasonable and in line with market practices. The Directors are of the view that the terms of the underwriting of the Open Offer (including the underwriting commission rate) are comparable to the market practice.

Mr. Lo has advised the Company that he does not at present intend to appoint any sub-underwriters.

The Company did not approach other potential underwriters for the Open Offer. Given the low liquidity of the Company's securities, and the small size of the underwriting required and fees to be earned (with over half the Open Offer shares being the subject of undertakings to apply and thus not underwritten), and its prior experience in a potential fund raising in 2015 when the low liquidity of the Company's securities was similar to the present days, the Board considers it unlikely that commercial underwriters would be interested in the transaction except on terms that would be onerous.

LETTER FROM THE BOARD

The reasons for selecting Mr. Lo as the Underwriter were the Open Offer price, the commission rate, his ability to act quickly, and his knowledge of the Company, which meant the underwriting agreement representations and warranties could be negotiated more easily and quickly than would be the case with a securities house.

The Open Offer may have a dilution effect if a Shareholder decides not to apply for its entire assured allotment under the Open Offer. If all the Shareholders do not apply for any of the Offer Shares in their assured allotments, the percentage shareholding of the existing public Shareholders will be diluted by approximately 10.07% from approximately 35.26% to 25.19%.

Based on the above, and given that each Shareholder is entitled to apply for the Offer Shares at the same price in proportion to his/her/its existing shareholding in China Assets, the Directors (including the independent non-executive directors) consider that the underwriting arrangements and the terms of the Open Offer are fair and reasonable and in the interests of China Assets and the Shareholders as a whole.

Conditions of the Open Offer

The Open Offer is conditional upon the Underwriting Agreement becoming unconditional and not being terminated. The obligations of the Underwriter under the Underwriting Agreement are conditional on:—

- (i) compliance by China Assets with all its obligations under the Underwriting Agreement;
- (ii) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Offer Shares either unconditionally or subject to such conditions which China Assets accepts and the satisfaction of such conditions (if any and where relevant) by no later than the Settlement Date and the Listing Committee of the Stock Exchange not having withdrawn or revoked such listing and permission on or before 4:00 p.m. on the Settlement Date;
- (iii) the obligations of the Underwriter under the Underwriting Agreement not being terminated by the Underwriter.

None of the conditions are capable of being waived.

LETTER FROM THE BOARD

In the event that condition (ii) has not been satisfied on or before 4:00 p.m. on the Settlement Date, all liabilities of the parties under the Underwriting Agreement shall cease and determine and neither of the parties shall have any claim against the other (save in respect of any antecedent breaches and claims).

Termination of the Underwriting Agreement

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing issued to China Assets at any time prior to 4:00 p.m. on the Settlement Date if there occurs:—

- (i) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (ii) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or currency (including any disruption to trading generally or trading in any securities of China Assets on any stock exchange, or a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict; or
- (iii) any act of God, fire, flood, explosion, epidemic, earthquake, nuclear or natural disaster, war, act of terrorism, riot, public disorder, civil commotion, strike or lock-out; or
- (iv) any suspension or a material limitation in trading in securities generally on the Stock Exchange, or a general moratorium on commercial banking activities in Hong Kong declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in Hong Kong;

and in the absolute opinion of the Underwriter, such change could have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Open Offer or make it inadvisable or inexpedient to proceed with the Open Offer.

LETTER FROM THE BOARD

If, at or prior to 4:00 p.m. on the Settlement Date:

- (i) China Assets commits any material breach of or omits to observe any of the obligations, undertakings, representations or warranties expressed to be assumed by it under the Underwriting Agreement which breach or omission could have a material and adverse effect on its business, financial or trading position; or
- (ii) the Underwriter shall receive notification, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue, inaccurate or misleading, or would be untrue, inaccurate or misleading if repeated as provided in the Underwriting Agreement and the Underwriter shall, in its absolute opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Open Offer;

the Underwriter shall be entitled (but not bound) by notice in writing to China Assets prior to the Settlement Date to terminate the Underwriting Agreement.

Upon the giving of such notice, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and none of the parties thereto shall have any claim against the other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement (save in respect of any antecedent breaches and claims). If the Underwriter exercises such right, the Open Offer will not proceed.

WARNING OF THE RISKS OF DEALING IN THE SHARES

The Open Offer is subject to, among other things, the fulfilment or waiver of the conditions set out in the paragraph headed “Conditions of the Open Offer” above. In particular, it is subject to the Underwriting Agreement not being terminated. Accordingly, the Open Offer may or may not proceed and the Shareholders and the public are reminded to exercise caution when dealing in the Shares.

Any dealing in the Shares from the date of this circular up to the date on which all the conditions of the Open Offer are fulfilled, will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares are recommended to consult their own professional advisers.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF CHINA ASSETS

Set out below is the shareholding structure of China Assets:—

Shareholders	At Latest Practicable Date		Immediately after completion of Open Offer assuming Shareholders apply for Offer Shares in full		Immediately after completion of Open Offer assuming no Shareholders except Mr Lo and New Synergies apply for Offer Shares and Underwriter takes up all Underwritten Offer Shares	
	<i>Number of % Shares</i>	<i>Approximate %</i>	<i>Number of % Shares</i>	<i>Approximate %</i>	<i>Number of % Shares</i>	<i>Approximate %</i>
Directors						
Lo Yuen Yat	225,000	0.30	315,000	0.30	14,412,150	13.41
Yeung Wai Kin	100,000	0.13	140,000	0.13	100,000	0.09
	<u>325,000</u>	<u>0.43</u>	<u>455,000</u>	<u>0.43</u>	<u>14,512,150</u>	<u>13.50</u>
Substantial shareholders						
New Synergies	41,290,285	53.79	57,806,399	53.79	57,806,399	53.79
Team Assets Group Limited	<u>8,075,000</u>	<u>10.52</u>	<u>11,305,000</u>	<u>10.52</u>	<u>8,075,000</u>	<u>7.52</u>
	<u>49,365,285</u>	<u>64.31</u>	<u>69,111,399</u>	<u>64.31</u>	<u>65,881,399</u>	<u>61.31</u>
Public	<u>27,067,875</u>	<u>35.26</u>	<u>37,895,025</u>	<u>35.26</u>	<u>27,067,875</u>	<u>25.19</u>
Total	<u><u>76,758,160</u></u>	<u><u>100</u></u>	<u><u>107,461,424</u></u>	<u><u>100</u></u>	<u><u>107,461,424</u></u>	<u><u>100</u></u>

LETTER FROM THE BOARD

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Directors consider that it is in the best interest of China Assets and the Shareholders as a whole to raise long-term equity capital through the Open Offer. The Open Offer will also offer existing Shareholders the opportunity to participate in the future development of China Assets on equal terms.

The net proceeds from the Open Offer are estimated to be approximately HK\$119.01 million (equivalent to approximately HK\$3.88 per Offer Share). China Assets intends to use the net proceeds of the Open Offer for its investment activities and general corporate purposes.

The Company is an investment company listed under Ch. 21 of the Listing Rules principally engaged in investment holding in Hong Kong and Mainland China. Its business is investment. Because the Company is an investment company it requires funding to be available for investment as and when opportunities arise and the Directors therefore propose the Open Offer. At any given time the Company may be considering any number of investment opportunities but it has no specific investment for which proceeds of the Open Offer are to be used.

Although the Company has cash of approximately RMB 308 million deposited at a bank in Mainland China that amount is restricted for use under relevant PRC taxation and foreign exchange regulations. It is envisaged that the amount will not be available for use within the first half of 2017.

It is expected that the net proceeds from the Open Offer will satisfy the Company's expected funding needs for the immediately foreseeable future. As an investment company the Company has few non-discretionary outgoings other than staff and office costs. It invests if and when attractive opportunities arise. At present the Company has no plan to conduct further open offer or other fund raising activities but if and when attractive opportunities arise and if the cash of approximately RMB308 million in Mainland China is still not available for use the Board will consider at the time how to fund any investment. Funding may or may not include further open offer or other fund raising activities.

The Company expects to invest approximately RMB200 million in several investments within the next 12 months, either as follow-on or in advanced stage of due diligence and negotiations. The investments are all within the healthcare, an industry stressed by the Company in its recent interim and annual reports.

LETTER FROM THE BOARD

ALTERNATIVES CONSIDERED

The Open Offer will offer existing Shareholders the opportunity to participate in the future development of the Company on equal terms because it will give each of them the opportunity to join in that funding according to their existing percentage interests of the Company. The Company has considered other debt/equity fund raising alternatives such as bank borrowings, placings or a rights issue. Bank borrowings carry interest costs and creditors rank before shareholders, and placings dilute the interests of shareholders. Whilst a rights issue does not carry these disadvantages it was considered that an open offer is slightly more flexible and in terms of equality of treatment of shareholders is no different to a rights issue. Bank borrowing is by its nature more expensive than issuing equity.

FUND RAISING EXERCISES OF CHINA ASSETS

China Assets has not conducted any fund raising exercises by way of issue of equities in the 12 months immediately preceding the date of this circular.

IMPLICATIONS UNDER THE LISTING RULES

As the Underwriter is a connected person of the Company, Shares held by him are not regarded as part of the public float for the purposes of the Company's compliance with the minimum public float requirement under Rule 8.08 of the Listing Rules. It is not expected that the public float requirements will be breached as a result of the Open Offer but if necessary appropriate steps will be taken to ensure that the public float requirements under Rule 8.08 of the Listing Rules will continue to be complied with immediately after the Open Offer.

As the Underwriter is a connected person of the Company, the entering into of the Underwriting Agreement by the Company constitutes a connected transaction for the Company under the Listing Rules but is fully exempt under Rules 7.26A and 14A.92 of the Listing Rules.

The payment of the underwriting commission by the Company to the Underwriter also constitutes a connected transaction of the Company. The total amount of underwriting commission payable by the Company is within the de minimis threshold for connected transactions under Chapter 14A of the Listing Rules, the payment of commission to the Underwriter pursuant to the Underwriting Agreement is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.76 of the Listing Rules.

LETTER FROM THE BOARD

Since the Open Offer will not increase the issued share capital or the market capitalisation of the Company by more than 50% within the twelve-month period immediately preceding the announcement on 31 October, 2016, the Open Offer is not subject to Shareholders' approval under the Listing Rules.

The Company is not required to appoint an independent financial adviser to advise Shareholders on the Open Offer, under the Listing Rules.

IMPLICATIONS UNDER THE TAKEOVERS CODE

At the Latest Practicable Date New Synergies and Mr. Lo owned, controlled or had direction over 41,515,285 Shares in aggregate, representing approximately 54.09% of the existing issued share capital of China Assets. New Synergies and Mr. Lo did not hold any convertible securities, options, warrants or derivatives of China Assets which confer any right to subscribe for, convert or exchange into Shares as at the date of this circular.

No bid obligation will arise on the Underwriter under the Takeovers Code regardless of the number of Offer Shares he acquires.

WARNING: AS THE OPEN OFFER IS SUBJECT TO A NUMBER OF CONDITIONS, THE OPEN OFFER MAY OR MAY NOT PROCEED. SHAREHOLDERS ARE URGED TO EXERCISE CAUTION WHEN DEALING IN SHARES.

GENERAL

Your attention is drawn to the information contained in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China Assets (Holdings) Limited
Lo Yuen Yat
Chairman

FINANCIAL SUMMARY

1. The audited financial information of the Group:—
 - (i) for the year ended 31 December 2015 is disclosed in the annual report of the Company published on 11 April 2016 (pages 34 – 81);
(accessible at <http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0411/LTN20160411347.pdf>)
 - (ii) for the year ended 31 December 2014 is disclosed in the annual report of the Company published on 21 April 2015 (pages 32 –79);
(accessible at <http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0421/LTN20150421450.pdf>); and
 - (iii) for the year ended 31 December 2013 is disclosed in the annual report of the Company published on 16 April 2014 (pages 31 – 79),
(accessible at <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0416/LTN20140416397.pdf>)

all of which have been published on the Stock Exchange's website (www.hkexnews.hk) and the website of the Company (www.chinaassets.com).

STATEMENT OF INDEBTEDNESS

2. As at the close of business on 30 September 2016, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had no: (i) debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured; (ii) borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits or hire purchase commitments, distinguishing between guaranteed, unguaranteed, secured and unsecured borrowings and debt; (iii) mortgages and charges; and (iv) contingent liabilities or guarantees.

WORKING CAPITAL

3. The Directors, after due and careful enquiry, are of the opinion that taking into account the internal resources available to the Group and the effect of the Open Offer, the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

MATERIAL ADVERSE CHANGE

4. The Directors are not aware of any material adverse change in the financial or trading position of the Company since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date.

BUSINESS TREND, FINANCIAL AND TRADING PROSPECTS

5. The Company is an investment company listed under Chapter 21 of the Listing Rules and together with its subsidiaries are principally engaged in investment activities in Hong Kong and mainland China.

The Group recorded an audited profit for the year attributable to equity holders of the Company of approximately US\$11.12 million in financial year 2015, compared to an audited net profit approximately US\$9.73 million in financial year 2014. The profit in 2015 mainly comprised (i) a profit (net of taxation) of US\$15.55 million arising from disposal of portion of its equity investment in Shandong Lukang Pharmaceutical Co., Ltd. (“Lukang”) and (ii) a profit of approximately US\$3.97 million (including reversal of provision) from disposal of its remaining holding in an unlisted mobile phone manufacturer. The consolidated net asset value increased by approximately US\$28.21 million for the year 2015 to US\$224.83 million at the end of 2015. Apart from the net profit for the year 2015, the major increase in net asset value was mainly attributable to the unrealized increase in fair value of Lukang whose share price increased from RMB7.92 to RMB13.35 over the year 2015.

The Group reported a loss of approximately US\$1.32 million for the six months ended 30 June 2016 compared with a profit of US\$11.98 million for the same period in 2015. The result was mainly due to (1) the absence of profits of disposal of investments and (2) sharing of loss of approx. US\$0.89 million of its unlisted associated company, Shanghai International Medical Centre Co Ltd. During the first half year, except for disposal of Shanghai Moxing Environmental Science and Technology Co Ltd in June, the Group did not make any material investments or disposals. As at 30 June 2016, the consolidated net asset value of the Group was US\$192.93 million, representing a US\$31.90 million decrease from US\$224.83 million as of 31 December 2015. The decrease was mainly due to the decline of share price of Lukang from RMB13.35 to RMB8.94 for the period.

The two largest investments of the Group are its investment in Lukang and First Shanghai Investments Limited (“FSIL”) which accounted for approximately 40% and 27% respectively of its total audited net asset value as at 31 December 2015.

In the first half year of 2016, Lukang reported a net profit of RMB12.85 million against a profit of RMB0.6 million in 2015. Its revenue grew by 7.82% to RMB1,238.98 million compared with corresponding period in 2015, with gross profit ratio improved to 21.6%. The major contributing factor for the improvement was the decrease in financial expense of RMB11.72 million. The various factors hindering a better performance, including but not limited to a shrinking market demand in veterinary antibiotics and its slow adjustments to the product mix, is expected to remain. In line with the performance of the China stock market, Lukang's share price declined during the first half year from RMB13.35 to RMB8.94, marking the fair value of the investment at US\$59.55 million at end of the June 2016, resulting in an unrealized fair value loss of US\$30.57 million being transferred to the investment revaluation reserve in the half year report.

Having been granted a mandate by the shareholders in 2015 to dispose of up to all its holdings in Lukang, the Company sold part of its holding in Lukang subsequent to interim reporting day.

FSIL, the Company's major listed associate, reported a net loss of HK\$95.47 million (approx. US\$12.30 million) for the six months ended 30 June 2016. This compared to a net profit of HK\$87.74 million (approx. US\$11.32 million) for the six months ended 30 June 2015. The loss was mainly attributable to: (1) recognition of approximately HK\$117.90 million accounting loss on disposal of its investment in the Company; (2) decrease in profit from stock brokerage business due to decrease in market turnover by approximately 71% compared to the corresponding period in 2015; and (3) decrease in trading profit of its investment portfolio by approximately 84% from the corresponding period in 2015. These negative factors were partially offset by the decrease in depreciation charges from its hotel facilities in Wuxi City, Jiangsu Province, Mainland China. Since the Hong Kong stock market turnover has no major improvement recently, the profit from stock brokerage, its core operation, should remain depressed. The share price of FSIL was stable in the first half year.

Shanghai International Medical Centre Co Ltd ("SIMC") in which the Group has invested RMB 160 million up-to-date for 20% indirect equity. SIMC owns a 500-bed, class-A hospital in Pudong New Area to provide high-end medical services to foreign expatriates and local high-income residents in Shanghai and adjacent regions ("the Hospital"). The Hospital, opened in May 2014, has yet to turn a profit since its opening. This is within expectations as a hospital project of this magnitude typically takes several years to reach breakeven. Further funding is anticipated to sustain the initial phase. The Group shared a loss of RMB 5.8 million in its half year report.

China's economy, despite meeting its forecasted GDP figure, faces downside risks in the rest of the year. Growth will be challenged by the loss of momentum in real estate construction and weak prospects for exports and corporate investments. It is likely to expedite more infrastructure projects and continue to maintain an accommodative monetary environment. While there shouldn't be a hard landing for the economy, increased volatility in commodities could worsen industrial deflation, and rising short-term financial volatility and expectation of further devaluation of RMB could spur capital outflow. With structural issues still unresolved, any turn-around would be short-lived and a renewed slowdown over the next couple of years is looking increasingly likely.

The Group has been monitoring its various existing investments, and in particular, Lukang. The Group will consider additional sales of it during the rest of the year provided the market situation and share price are favorable.

The Group is now investigating various investment opportunities which are related to healthcare industry which has been growing rapidly due to China's aging population. These potential investments are mainly in small, private hospitals focusing in a narrow set of specialities such as obstetrics , gynecology and cancer therapy, initially in Shanghai but could extend to other regions of China. These types of investments, in our opinion, will not be materially affected by the economic cycle and anticipated slow down. It is expected these investments would take some time to mature as the industry is heavily regulated by the Chinese government, until recently. A few years is required for the Chinese healthcare reform to take root and redirection of patients from public to private hospitals. A meaningful gain arising from disposal of these potential investments within a short period is not anticipated. However, these investments should provide attractive returns once the Chinese healthcare industry completes its reformation. Going forward, the Group will adopt a strategy to balance between its existing investments and potential investments in respect of their stage of disinvestment and funding requirement such that a reasonable growth in profit and asset value of the Group can be achieved.

The unaudited pro forma financial information should be read in conjunction with Appendix I headed “Financial Information of the Group” in this circular and the interim report of the Company for the six months ended 30 June 2016.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS AS AT 30 JUNE 2016

The following is the unaudited pro forma statement of adjusted net tangible assets of the Group attributable to the equity holders of the Company (the “Unaudited Pro Forma Financial Information”) which has been prepared based on the notes set forth below to illustrate the effect of the Open Offer on the unaudited consolidated net tangible assets of the Group as at 30 June 2016 as if the Open Offer had completed on 30 June 2016.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Open Offer been completed as at 30 June 2016 or at any future dates.

Unaudited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2016 US\$'000 (Note 1)	Estimated net proceeds from the Open Offer		Unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2016 US\$'000 (Note 4)	Unaudited pro forma adjusted net tangible assets per Share as at 30 June 2016 US\$ (Note 4)
	HK\$'000 (Note 2)	US\$'000 (Note 2, 3)		
	192,928	119,008	15,339	208,267
	<u>192,928</u>	<u>119,008</u>	<u>15,339</u>	<u>208,267</u>

Based on 30,703,264 Shares to be
issued at the Subscription Price
of HK\$3.95 per Offer Share

<u>192,928</u>	<u>119,008</u>	<u>15,339</u>	<u>208,267</u>	<u>1.94</u>
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Notes:

1. The unaudited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2016 is based on the unaudited consolidated net assets of the Group attributable to the equity holders of the Company as at 30 June 2016 of US\$192.93 million, as extracted from the Company's interim report for the six months ended 30 June 2016 with no adjustments of intangible assets as the Group has no intangible assets as at 30 June 2016.
2. The estimated net proceeds of US\$15.339 million (equivalent to HK\$119.01 million) from the Open Offer are based on 30,703,264 Shares to be issued at the Subscription Price of HK\$3.95 per Offer Share, after deduction of the related expenses of approximately US\$0.293 million (equivalent to HK\$2.27 million).
3. An exchange rate of US\$1.00 to HK\$7.7585 has been used for the conversion of HK dollar into US dollar for the purpose of this unaudited pro forma information.
4. The unaudited pro forma adjusted net tangible assets per Share is arrived at after dividing the unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2016 by 107,461,424 Shares, comprising (i) 76,758,160 Shares which were in issue as at 30 June 2016 and (ii) on the basis of the 30,703,264 Shares under the Open Offer were in issue, assuming the Open Offer had been completed on 30 June 2016.
5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2016.

**B. REPORT ON UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET
TANGIBLE ASSETS OF THE GROUP AS AT 30 JUNE 2016**

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT
ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL
INFORMATION****To the Directors of China Assets (Holdings) Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Assets (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 June 2016, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages 23 to 24 of the Company's circular dated 21 November 2016, in connection with the Open Offer of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages 23 to 24.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Open Offer on the Group's financial position as at 30 June 2016 as if the Open Offer had taken place at 30 June 2016. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the six months ended 30 June 2016, on which no audit or review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

Our Independence and Quality Control

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

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

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

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

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

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Open Offer at 30 June 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 21 November 2016

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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 document 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 document misleading.

2. SHARE CAPITAL

The Company does not have an authorised share capital. The issued share capital of the Company (i) as at the Latest Practicable Date was; and (ii) immediately following completion of the Open Offer will be as follows:—

(i) As at the Latest Practicable Date	<i>US\$</i> (unaudited)
Issued and fully paid up: 76,758,160 Shares	76,783,698
(ii) Upon completion of the Open Offer	<i>US\$</i> (unaudited)
Issued and fully paid up: 107,461,424 Shares	92,332,146

The issued share capital upon completion of the Open Offer excludes the estimated expense in connection with the Open Offer and was translated at an exchange rate of US\$1.00 to HK\$7.8.

The Company had no outstanding derivatives, options, warrants or securities in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

All issued Shares rank pari passu in all respects, including in particular as to dividends, voting rights and return on capital. The Open Offer Shares will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

Save for the Shares, which are listed and traded on the Main Board of the Stock Exchange, none of the securities of the Company is listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the securities of the Company being, or proposed to be, sought on any other stock exchange.

As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

3. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests in securities

At the Latest Practicable Date, the chief executive of the Company and the following Directors and their respective associates were interested, or were deemed to be interested in the following long and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the "Model Code") adopted by the Company, to be notified to the Company and the Stock Exchange were as follows:—

Name of Director	Shares in the Company		Number of shares held		% of the issued share capital
	Personal interests	Corporate interests	Total		
Lo Yuen Yat (<i>Note 1</i>)	14,412,150	57,806,399	72,218,549		94.09
Yeung Wai Kin	100,000	—	100,000		0.13

Note 1:

The interests of Mr Lo and New Synergies include interests arising under the Underwriting Agreement. Mr. Lo Yuen Yat was deemed to be interested in 57,806,399 shares in the Company in which New Synergies is interested. As at the Latest Practicable Date, New Synergies was owned as to 40% by Mr. Lo Yuen Yat, to 30% by his brother Mr. Lao Kaisheng, and to 30% by his sister Ms. Lao Jiangsheng. Mr. Lo Yuen Yat was taken to be interested in the 57,806,399 shares in the Company by virtue of Part XV of the SFO.

Options in respect of shares in the Company

In May, 2014, The Company adopted an option scheme ("Scheme") pursuant to which, the Directors may at their discretion offer any director, employee or consultant of the Group, or of a company in which any company in the Group holds an equity interest or a subsidiary of such company; or any adviser whose service to the Group contributes or is expected to contribute to the business or operation of the Group as may be determined by the Directors from time to time to subscribe for Shares in the Company. Since the adoption of the Scheme, the Company has not granted any share options under the Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests in the long or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code adopted by the Company, to be notified to the Company and the Stock Exchange.

Substantial shareholders and other persons' interests in Shares and underlying Shares

At the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than the interests disclosed above in respect of certain Directors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register to be kept under Section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company or any other member of the Group.

Name	Type of interest	Capacity	Number of ordinary shares held	Percentage of issued share capital
Lo Yuen Yat (<i>Note 1</i>)	Personal	Interest of Controlled Corporation	72,218,549	94.09%
New Synergies (<i>Note 1</i>)	Corporate	Beneficial Owner	57,806,399	75.31%
Chen Dayou (<i>Note 2</i>)	Personal	Interest of Controlled Corporation	8,075,000	10.52%
Team Assets Group Limited (<i>Note 2</i>)	Corporate	Beneficial Owner	8,075,000	10.52%

Note:

- (1) Lo Yuen Yat had a deemed interest in the issued share capital of the Company through his interest in New Synergies. The interests of Mr Lo and New Synergies include interests arising under the Underwriting Agreement.
- (2) Chen Dayou had a deemed interest in the issued share capital of the Company through his interest in Team Assets Group Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any persons who had an interest and/or short position in the Shares or underlying Shares of the Company which is required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

4. DIRECTORS' SERVICE CONTRACTS/INTERESTS

As at the Latest Practicable Date:—

- (A) none of the Directors had entered or proposed to enter into a service contract with the Company or any of its subsidiaries or associated companies which is not determinable by the Company within one year without payment of compensation, other than statutory compensation;
- (B) none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group;
- (C) none of the Directors had any interest, direct or indirect, in any assets which have since 31 December, 2015, being the date to which the latest published audited accounts of the Company were made up, and to the Latest Practicable Date, been acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (D) none of the Directors and their respective associates were considered to have interests, directly or indirectly, in any business which competes or is likely to compete with the business of the Group.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

As at the Latest Practicable Date, save as disclosed above, the Company was not engaged in any litigation or claims of material importance known to the Directors to be pending or threatened against the Company.

6. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given an opinion which is contained in this circular:—

Name	Qualifications
PricewaterhouseCoopers	Certified Public Accountants

As at the Latest Practicable Date, PricewaterhouseCoopers had no shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor interest, either directly or indirectly, in any assets which had been, since 31 December 2015 (the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which they are included.

7. MATERIAL CONTRACTS

Apart from the Underwriting Agreement, no material contract was entered into by members of the Group in the 2 years before the date of this circular otherwise than in the usual course of business that is or may be material.

At the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December, 2015 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

8. EXPENSES

The expenses in connection with the Open Offer, including underwriting commission and other charges and expenses are estimated to be approximately HK\$2.27 million and are payable by the Company.

9. CORPORATE INFORMATION

Company's registered office, head office and principal place of business in Hong Kong	19th Floor, Wing On House 71 Des Voeux Road Central Hong Kong
Authorised representatives	Mr. Lo Yuan Yat 19th Floor, Wing On House 71 Des Voeux Road Central Hong Kong Mr. Cheng Sai Wai 19th Floor, Wing On House 71 Des Voeux Road Central Hong Kong
Principal bankers	China CITIC Bank International Limited Shanghai Pudong Development Bank Co. Ltd. Agricultural Bank of China
Auditor	PricewaterhouseCoopers Certified Public Accountants 22/F, Prince's Building Central Hong Kong
Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong

10. PARTIES INVOLVED IN THE OPEN OFFER

The Underwriter	Mr. Lo Yuen Yat
Legal adviser to the Company	David Norman & Co

11. DIRECTORS**Biographical Details of Directors**

Mr. LO Yuen Yat, aged 70, was a Director from 1991 to 1993 and was re-elected in 1995. He is the chairman of the Company and was appointed as managing director in January 2016. He is a director of various subsidiaries of the Company. He is also the chairman and managing director of First Shanghai Investments Limited which is a substantial shareholder and an associated company of the Company and a director of Golad Resources Limited. Previously, Mr. Lo was a senior policy researcher at China's National Research Centre for Science and Technology and Social Development and worked at the PRC State Science and Technology Commission, Ministry of Communications of the People's Republic of China and the PRC Railway Ministry. Mr. Lo graduated from Fudan University in Shanghai and obtained his master's degree from Harvard University.

Mr. CHENG Sai Wai, aged 59, was appointed a director in January 2016. Mr. Cheng has been company secretary of the Company since January 2011. Mr. Cheng is a non-executive director of Shandong Lukang Pharmaceutical Co. Limited, a company listed on the Shanghai Stock Exchange, PRC. He is also employed by First Shanghai Investments Limited to oversee its PRC non-wholly owned subsidiary whose business activity is related to logistics. Mr. Cheng holds a Bachelor of Business Administration degree in Accounting from The Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. He has over 30 years extensive experience in auditing, accounting, and financial control, as a company secretary and in private equity investment.

Mr. YEUNG Wai Kin, aged 55, has been a Director since 1997 and is a director of various subsidiaries of the Company. Mr. Yeung is the chief financial officer and a director of First Shanghai Investments Limited. He is also a director of First Shanghai Direct Investments Limited and Golad Resources Limited. He has over 30 years' experience in auditing, finance and management positions. Mr. Yeung is

a professional member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

Mr. ZHAO Yu Qiao, aged 71, has been a Director since 2000. He has a bachelor's degree from Qinghua University, China, and a diploma in engineering from Rul University, Germany.

Ms. LAO Yuan Yuan, aged 38, was an executive director of the Company from 2005 to 2015 and was redesignated as a non-executive director in January 2016. Ms. Lao is presently a vice-president of business development of Crimson Pharmaceutical (Hong Kong) Limited ("Crimson"), a subsidiary of First Shanghai Investments Limited. Prior to joining Crimson, Ms. Lao worked in the investment banking division at Merrill Lynch & Co in New York City. Ms. Lao graduated magna cum laude from Columbia University, USA, where she studied Engineering Management Systems. Ms. Lao is the daughter of Mr. Lo Yuen Yat.

Mr. FAN Jia Yan, aged 70, has been a Director since 1999. Mr. Fan is an independent non-executive Director of the Company. He is a special adviser of CITIC Bank International Limited. He worked for CITIC Industrial Bank in Beijing for more than 10 years and is well versed in all aspects of China's banking business.

Mr. WU Ming Yu, aged 85, has been a Director since 2002. Mr. Wu is an independent non-executive Director of the Company. Mr. Wu is a renowned scientific policy researcher in China and retired in 1994. He is an honorary president of the China Association for Scientific and Economic Research and the China Association for Scientific and Technology Research. He was a director of Creat Group, an independent director of Beijing Shougang Company Limited, and an independent non-executive director of Venturepharm Laboratories Limited. He has been a vice-director of the Development Research Center of the State Council, vice-director of the State Science and Technology Commission and a part-time professor at the University of Science and Technology of China, Zhongqing University and the Beijing Institute of Technology. He has published numerous research papers and was instrumental in formulating China's policy on science and technology.

Dr. David William MAGUIRE, aged 64, has been a Director since July 2008. Dr. Maguire is an independent non-executive Director of the Company. Over a continuing career of more than 40 years in the media sector he has held senior management positions in Shanghai, Hong Kong and Australia, been a university media academic, and served as chairman and director of a number of corporate

and not for profit entities. He is a Ph.D. (Murdoch University, Perth) and Doctor of Business Administration (Edith Cowan University, Perth), as well as a Master of Business Administration (James Cook University, Cairns) and holder of Masters degrees in regional development (University of Western Australia, Perth) and tourism management (Southern Cross University). He is a graduate of the Australian Institute of Company Directors.

The business address of each of the Directors is 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong.

Save as disclosed herein at the Latest Practicable Date, none of the Directors:—

- (i) had any interest or short position in the Shares within the meaning of Part XV of the SFO;
- (ii) had any relationship with any other Directors, senior management or substantial or controlling Shareholders of the Company;
- (iii) held any other position with the Company or its subsidiaries;
- (iv) held any other directorships in other public companies whose securities are listed on any securities market in Hong Kong or overseas in the last three years;
- (v) was a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO;
- (vi) had entered into any existing or proposed service contracts with the Company, or any other member of the Group, save for those expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation);
- (vii) had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Company were made up);

- (viii) and their respective associates was interested in any business, apart from the Company's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Company's business and there was no contract or arrangement subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the Group's business; and
- (ix) was materially interested in any contract or arrangement which is significant to the business of the Group.

12. MISCELLANEOUS

- (i) The secretary of the Company is Mr. Cheng Sai Wai, who is a Fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom.
- (ii) The English texts of this Circular, the AAL and EAF shall prevail over their respective Chinese texts in case of inconsistency.
- (iii) The estimated expenses in connection with the Open Offer (including but not limited to the underwriting commissions, printing, registration, legal, professional and accounting charges) are approximately HK\$2,270,000.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) on the website of the Company (www.chinaassets.com); and (ii) during normal business hours at the head office and principal place of business of the Company in Hong Kong at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong from the date of this Circular up to and including the latest time for application and payment:—

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2014 and 2015;
- (c) the report on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this Circular;
- (d) the Underwriting Agreement;
- (e) the written consent referred to in the section headed "Qualification and Consent of Expert" in this appendix; and
- (f) this circular and the Application Forms.

This appendix contains additional disclosures required under Rule 21.09 of the Listing Rules in connection with the listing document of an investment company.

INVESTMENT MANAGEMENT

Since the lapse of the agreement for the management of the investments of the Company entered into by the Company and its former manager, China Assets Investment Management Limited, on 28 March 1991 and from time to time amended and extended Amended Investment Management Agreement on 31 December 2015 the Company's investment strategy has been determined by the board based on recommendations of its investment committee. There are no costs and charges which an investor would be likely to consider material and no deduction are made for moneys subscribed for securities.

No directors of the Company, any investment adviser or any distribution company, or any associate of any of those persons, is or will become entitled to receive any part of any brokerage charged to the Company, or any re-allowance of other types on purchases charged to the Company.

INVESTMENT OBJECTIVES AND POLICIES

The following description of the investment objectives and policies of the Company is extracted from the placing memorandum issued by the Company on 8 April, 1992 but has been updated to take into account certain subsequent changes in them and to the Company's Articles of Association.

Investment Objectives and Policies

The principal investment objective of the Company is to seek to achieve long-term capital appreciation through investments primarily in equity and equity-related investments in small to medium-sized companies operating in China. The majority of the Company's future investments are expected to be in unlisted securities but the Company may also invest in securities which are listed on any of the stock exchanges in China. In particular the Company may apply up to 5 percent of its net asset value in the acquisition of a trading portfolio of the listed securities. The Company's investments may also take the form of partnerships (whether limited or unlimited), management participations, joint ventures and other forms of non-corporate investment. Although the restrictions described under "Investment Limitations" below will permit the Company to invest up to 20 percent of its net asset value in a single company or enterprise or group of companies or enterprises, it is anticipate that, typically, the Company's investments will have a cost of between US\$2 million and US\$5 million. If the investment is an a partnership which has unlimited

liability under Chinese law the Company will endeavour to make such investment through a subsidiary or an intermediate investment holding company with limited liability. The Director will endeavour to ensure that the Company will not be directly exposed to unlimited liability on its investments.

The Company will continue to invest in a board spectrum of industries in China. In selecting further industries and companies for equity investment, consideration will be given to the following investment criteria:—

1. good profitability records;
2. expert-oriented sales;
3. relative competitive position in the domestic and international markets;
4. good growth potential;
5. sound management; and
6. sound environmental management.

Initially, the Company will focus on investments in the following key economic regions in China:—

1. the Pearl River Delta in Guangdong Province;
2. the special economic zones in Shenzhen, Zhuhai, Xiamen and Shatou;
3. the special economic province of Hainan;
4. the Shanghai Economic Development Zone; and
5. the major coastal cities.

The Company's capacity to provide capital and financial and other advice to its investee companies should improve their operational performance and strengthen their international marketing.

It is intended that the Company will seek to invest the majority of its assets in accordance with its investment objective and policies as soon as practicable. Pending investment, monies may be held in US Dollars in short-term money market instruments or deposited with banks or financial institutions.

The Company is permitted to borrow money and to charge its assets although the Directors have resolved that its aggregate borrowings should not exceed the amount of its issued share capital and share premium account at the time of the borrowing. The Directors do not intend to seek bank borrowings until substantially all the Company's funds have been invested.

Investment Limitations

The Articles of Association of the Company contain provisions to the following effect:—

- (i) that the Company will not either on its own or in conjunction with any connected person take legal, or effective, management control of underlying investments and that in any event the Company will not own or control more than 30% (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the voting rights in any one company or body, except in relation to wholly-owned subsidiaries of the Company; the limitation may not be amended while the Shares remain listed on the Stock Exchange except with the approval of Shareholders in general meeting and with the prior written consent of the Stock Exchange;
- (ii) that a reasonable spread of investments will be maintained by the Company, that is in general the value of its holding of investments issued by any one company or body will not exceed twenty per cent. of the Company's net asset value at the time when such investment is made;
- (iii) that the Company will convene and conduct shareholders' meetings in a manner which is acceptable to the Stock Exchange;
- (iv) that any custodian, management company, any of their connected persons and every Director of any the Company and its management company is prohibited from voting their own shares at, or being part of a quorum for, any meeting to the extent that they have or any of their associates has, a material interest in the business to be conducted; and

- (v) that the Company's auditors are to be independent of the Company, any management company and any custodian, to the same extent as required of an auditor under the Companies Ordinance and in accordance with the requirements on independence issued by the Hong Kong Institute of Certified Public Accountants.

The Board has resolved that:—

- (a) The Company may from time to time acquire securities in an underlying investment through an intermediate investment holding company which is not a subsidiary of the Company and over which the Company on its own, or together with any connected person, does not exercise legal or effective management control, provided that the intermediate investment holding company is incorporated in Hong Kong, Bermuda, the Cayman Islands, the Cook Islands or any other jurisdiction with the consent of the Stock Exchange. Although the Company on its own, or together with any connected person, may hold more than 30 percent (but not more than 49 percent) of the voting rights or of the equity share capital of such an intermediate investment holding company and be entitled to appoint a non-executive Director to its board, the largest shareholder in any such company will be independent of the Company. In such cases the percentage of the voting rights in the underlying investment held by the Company will be calculated by applying the Company's proportionate interest in the voting rights of the intermediate investment holding company to the voting rights held by the intermediate investment holding company in the underlying investment. If any such intermediate investment holding company should become a subsidiary of the Company then, if necessary, the Company will procure it to use its best endeavours to sell sufficient of the securities held by it in the underlying investment within three months of its becoming a subsidiary to ensure that this limitation is not contravened ; or
- (b) the Company will not invest in units or shares issued by a unit trust, mutual fund, open or closed-ended investment company or trust or other similar investment vehicle if, as a result, more than 10 percent of the Company's net asset value will be invested in such securities; or
- (c) the Company will not sell securities short or deal on margin; or
- (d) the Company will not buy or sell commodities, precious metals, options, warrants or futures (or any contracts associated therewith), except (other than in the case of commodities and precious metals) for hedging purposes.

The above limitations apply as at the date of the relevant transaction or commitment to invest. Changes in the portfolio do not have to be effected merely because owing the appreciations or depreciation in value, or by reason of the receipt of, or subscription for, any rights, bonuses or benefits in the nature of capital or of any acquisition or merger or scheme of arrangement for amalgamation, reconstruction or conversion or exchange or of any repayment or redemption, any of the limits would thereby be breached, but regard shall be had to these limits when considering changes or additions to the investment portfolio. None of the limitations will prohibit the Company from investing in wholly-owned subsidiaries for the purpose of making investments but if the Company establishes any such subsidiaries the limitations will apply on a consolidated basis.

None of these restrictions will require the realization of any investments of the Company where a restriction is breached as a result of any event outside the control of the Company occurring after the relevant investment is made, but no further such investment may be made until the relevant restriction can again be complied with. The Company will however be entitled to take up an investment opportunity offered to it on a pre-emptive or similar basis by reason of an existing investment.

Realisation in Investments

The Company's success in achieving its objectives depends firstly upon establishing a sound and well diversified portfolio of investments and secondly upon successfully arranging the disposal of its investments either by way of flotation on a stock exchange or by sale to management or outside parties. Before making an investment, the Company seeks to satisfy itself that the target has the potential for flotation or for sale to other parties within a three to five year time frame.

Listings of investee companies will be sought on Chinese stock exchanges and/or, if possible, on the Stock Exchange. The Company may, if the Board considers it appropriate, retain all or part of investments which have obtained such a listing.

The Company may realize its investments by selling its stake to foreign investors who are looking for investment opportunities in China. While the Chinese authorities are expected to allow joint ventures to be listed on local stock exchanges, private sale arrangements will, in some cases, be the most appropriate means of disposing of the Company's investments.

Foreign Exchange Policy

Although it is intended that the Company's investments will be denominated principally in US Dollars, there will be some investments which be denominated in RMB. It is not currently possible to hedge the RMB against the US Dollar on commercial terms and as the Company's investments are expected to be of a long term nature, it is not the Directors' present intention to hedge the Company's RMB denominated investments. The Directors reserve the right, however, to enter into arrangements to hedge currency risks, if such arrangements become desirable and practicable in the future.

Distribution Policy

Surpluses arising from realization of investments will generally not be available for distribution and will be reinvested. All income received by the Company, after deducting expenses and providing for any diminution in the value of investments, will to the extent permitted by law normally be paid out as a dividend although a portion of the income may, at the discretion of the Board, be retained for future investment. Subject to these constraints it is intention of the Directors that the Company will pay final and interim dividends in April and October respectively in each year.

Valuation Policy

The Company's investment will be valued, where necessary in consultation with the Auditors, in accordance with valuation regulations adopted by the Investment Committee from time to time. Such valuations will be subject to the approval of the Investment Committee. The net assets value of the Company will be the value of all assets less all liabilities of the Company. The net asset value of the Company will be determined as at the last day of the Company's financial year and on each of the other Quarter Days (each a "Valuation Day").

For the purposes of determining net asset values, the Investment Committee has adopted valuation regulations which include the following:—

- valuations shall be prepared in US Dollars;
- listed investments shall be valued at (a) the last available closing price on the Valuation Day and, if none, (b) the middle of the bid and offer price at the close of business on the Valuation Day and, if none, (c) the last traded price, subject in each case to discount if marketability is limited by the size of the holding relative to trading volume or otherwise;
- unlisted investment shall be valued at cost or such other price considered as representing their fair value as determined by the Investment Committee (in consultation with the Auditors if necessary);

- any value other than in US Dollars shall be converted in US Dollars at such rate of exchange on the relevant Valuation Day as the Investment Committee deems appropriate in the circumstances;
- liabilities shall be deemed to include such provisions and allowances for contingencies as the Investment Committee considers appropriate; and
- if the Valuation Day is not a Business Day or is a day on which the market for any investments or assets of the Company to be valued are closed for business, then such assets or investments shall be valued as at the immediately preceding Business Day and/or as at the immediately preceding day on which the relevant market was open for business.

The net asset value of the Company and the net asset value per Share as at each Valuation Day will be published on the Company's website and Hong Kong Stock Exchange's website within 15 days of each Valuation Day.

None of the directors of the investment company, any investment adviser or any distribution company, or any associate of any of those persons, is or will become entitled to receive any part of any brokerage charged to the Company, or any reallocation of other types on purchases charged to the Company.

RISKS RELATING TO THE COMPANY

The Company is an investment company and its funds are invested in listed and unlisted securities principally in Hong Kong and the PRC. These investments are subject to market fluctuations and the risks inherent in all investments. Investors should also be aware that the Company's income and its net asset value may be adversely affected by external factors beyond the control of the Company. The income of the Company and its net asset value may go down as well as up, subject to the prevailing market conditions.

Investors should be aware of these risks when investing in the Company. Save as disclosed above, the Directors are of the view that an investment in the Company is not subject to other abnormal risks.

TAXATION

The taxation of income and capital gains of the Company are subject to the fiscal law and practice of Hong Kong. Shareholders should consult their own professional advisers on the tax implications of investing, holding or disposing of Shares under the laws of the jurisdiction in which they are liable to taxation. No tax is deducted from distributions to shareholders under current Hong Kong law.

INVESTMENT PORTFOLIO

Top 10 Investments as at 30 June 2016

Name	Nature of business	% of total issued capital %	Invested amount US\$	Carrying value US\$	Investee's underlying earnings/ (losses) US\$	Attributable net assets to the Group US\$	Dividend received US\$
First Shanghai Investments Limited	Investment holding	17.45	13,770,330	61,983,058	(12,315,392)	62,162,134	319,230
Shanghai International Medical Centre Co Ltd	Provision of medical services	*20.00	21,963,920	14,746,755	(4,417,816)	14,626,286	0
Shandong Lukang Pharmaceutical Co Ltd	Manufacture and sale of pharmaceutical products	7.62	6,681,789	59,550,659 [#]	2,166,237	22,460,809	0
China Pacific Insurance (Group) Co Ltd.	Provision of insurance services and management of insurance funds	0.02	6,072,786	5,675,829 [#]	954,435,610	3,613,213	0
Red Stone Fund	Investment fund	*6.00	3,624,469	4,211,176 [#]	(15,505)	3,650,089	0
China Alpha Fund	Investment fund	N/A	2,770,449	3,301,855 [#]	(83,099,496)	3,301,855	0
Industrial and Commercial Bank of China Ltd	Provision of personal and corporate commercial banking services in China	0.00	725,421	945,337	22,969,880,391	1,347,583	0
HSBC Holdings PLC	Provision of international banking and financial services	0.00	1,446,348	935,179	7,423,000,000	1,544,614	0
Tencent Holdings Limited	Investment holding	0.00	701,531	1,021,396	1,658,827,386	103,564	2,726
China Telecom	Provision of fixed line and mobile communications service	0.00	1,285,825	802,732	1,787,203,549	1,035,237	0

* indirect interest

also represents their fair value

Investments in which provision have been made:

Name	Cost <i>US\$</i>	Provision made <i>US\$</i>	Carrying value <i>US\$</i>	Reasons
Goldeneye Interactive Limited	3,850,000	(2,990,776)	82,652	Due to the poor operating performance of the investee
Loan to Junhui International Holdings Limited	6,460,628	(6,460,628)	—	Creditor is insolvent