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

If you have sold or otherwise transferred all your shares in China Assets (Holdings) Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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NEW SYNERGIES INVESTMENTS COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

CHINA ASSETS (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 170)

**(1) PROPOSAL FOR THE PRIVATISATION OF
CHINA ASSETS (HOLDINGS) LIMITED
BY NEW SYNERGIES INVESTMENTS COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 673 OF THE
COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHINA ASSETS (HOLDINGS) LIMITED**

Financial adviser to the Offeror



Independent Financial Adviser to the Independent Board Committee

Nuada Limited

Unless the context otherwise requires, capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this Scheme Document.

A letter from the Board is set out on pages 14 to 22 of this Scheme Document. A letter from the Independent Board Committee containing its recommendation to the Scheme Shareholders in relation to the Proposal and the Scheme is set out on pages 23 to 24 of this Scheme Document. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee in relation to the Proposal and the Scheme is set out on pages 25 to 50 of this Scheme Document. The Explanatory Statement is set out on pages E-1 to E-21 of this Scheme Document. The actions to be taken by the Shareholders are set out on pages 1 to 4 of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held at United Conference Centre (Room 1), 10/F., United Centre, 95 Queensway, Hong Kong on Wednesday, 25 October 2017 at 10:00 a.m. and 10:30 a.m. respectively (or in the case of the EGM as soon thereafter as the Court Meeting shall have concluded or been adjourned) are set out on pages CM-1 to CM-3 and EGM-1 to EGM-3 of this Scheme Document respectively. Whether or not you are able to attend the Court Meeting or the EGM or any adjournment thereof in person, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and, if you are a Shareholder, you are strongly encouraged to complete and sign the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon and lodge them at the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by the respective times stated under the section headed "Actions to be taken" set out on pages 1 to 4 of this Scheme Document. In the case of the pink form of proxy in respect of the Court Meeting, it should be lodged not later than 10:00 a.m. on Monday, 23 October 2017 or it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for use at the EGM must be lodged not later than 10:30 a.m. on Monday, 23 October 2017. The completion and return of a form of proxy for each of the Court Meeting or the EGM will not preclude you from attending and voting in person at the Court Meeting or the EGM or any adjournment thereof. In such event, the returned form of proxy shall be deemed to have been revoked.

This Scheme Document is issued jointly by the Offeror and the Company. In case of inconsistency, the English language text of this document shall prevail over the Chinese language text.

28 September 2017

NOTICE TO U.S. HOLDERS OF THE SHARES

The Proposal is being made to cancel the securities of a Hong Kong company by means of a scheme of arrangement as provided for under the Companies Ordinance. A transaction effected by means of a scheme of arrangement pursuant to the Companies Ordinance is not subject to the tender offer rules of the U.S. Securities Exchange Act of 1934, as amended. Accordingly, the Proposal is subject to disclosure requirements and practices applicable in Hong Kong to schemes of arrangement, which differ from the disclosure requirements of the U.S. tender offer rules. Unless otherwise stated, the financial information included in this Scheme Document has been prepared in accordance with Hong Kong Financial Reporting Standards and thus may not be comparable to the financial information of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

This Scheme Document does not constitute an offer or invitation to purchase or subscribe for any securities of the Company in the United States.

The receipt of cash pursuant to the Proposal by a U.S. holder of Scheme Shares as consideration for the cancellation of its Scheme Shares pursuant to the Scheme may be a taxable transaction for U.S. federal income tax purposes and under applicable U.S. state and local, as well as foreign and other tax laws. Each holder of Scheme Shares is urged to consult his/her independent professional adviser immediately regarding the tax consequences of the Proposal applicable to him/her.

It may be difficult for U.S. holders of Scheme Shares to enforce their rights and claims arising out of the U.S. federal securities laws, since the Offeror and the Company are located in a country other than the United States and some or all of their officers and directors may be residents of a country other than the United States. U.S. holders of Scheme Shares may not be able to sue a non-U.S. company or its officers or directors in a non-U.S. court for violations of the U.S. securities laws. Further, it may be difficult to compel a non-U.S. company and its affiliates to subject themselves to a U.S. court's judgment.

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ACTIONS TO BE TAKEN

ACTIONS TO BE TAKEN BY SHAREHOLDERS

For the purpose of determining the entitlements of holders of Scheme Shares to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 18 October 2017 to Wednesday, 25 October 2017 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners. Subsequent purchasers of Scheme Shares will need to obtain a proxy form from the transferor.

Whether or not you are able to attend the Court Meeting or the EGM or any adjournment thereof in person, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and, if you are a Shareholder, you are strongly encouraged to complete and sign the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by the following respective times. In the case of the pink form of proxy in respect of the Court Meeting, it should be lodged by 10:00 a.m. on Monday, 23 October 2017 or it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for use at the EGM must be lodged by 10:30 a.m. on Monday, 23 October 2017.

The completion and return of a form of proxy for the Court Meeting or the EGM (as the case may be) will not preclude you from attending and voting in person at the Court Meeting or the EGM (as the case may be) or any adjournment thereof. In such event, the relevant form of proxy shall be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of such Court Meeting and/or EGM. You are therefore strongly urged to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

ACTIONS TO BE TAKEN

Voting at the Court Meeting and the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. Further announcements will be made regarding the Proposal in accordance with the requirements of the Takeovers Code and the Listing Rules, including in relation to the result of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date, the date of withdrawal of the listing of the Shares from the Hong Kong Stock Exchange and if the Scheme is withdrawn or lapses.

ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD BY A REGISTERED OWNER OR DEPOSITED IN CCASS

The Company is not permitted under its articles of association to recognise any person as holding any Shares through any trust except as provided therein or as required by law or ordered by a court of competent jurisdiction. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with another CCASS Participant, regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

ACTIONS TO BE TAKEN

HKSCC Nominees Limited may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS).

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote in person at the Court Meeting (if you are a Scheme Shareholder) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay a withdrawal fee to CCASS per board lot withdrawn, a registration fee, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE OFFEROR STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAM, YOU ARE URGED TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, YOU ARE ENCOURAGED TO PROVIDE HKSCC NOMINEES LIMITED WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC NOMINEES LIMITED IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR AT THE EGM WITHOUT DELAY AND/OR WITHDRAWN FROM CCASS AND TRANSFERRED INTO YOUR NAME (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN — ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD BY A REGISTERED OWNER OR DEPOSITED IN CCASS” ABOVE).

ACTIONS TO BE TAKEN

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, YOU SHOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTE.

IF YOU ARE IN ANY DOUBT AS TO ANY ASPECT OF THE PROPOSAL, THIS DOCUMENT OR AS TO THE ACTION TO BE TAKEN, YOU SHOULD CONSULT A LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT, OR OTHER PROFESSIONAL ADVISERS.

DEFINITIONS

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

“acting in concert”	the meaning ascribed to it in the Takeovers Code, and “persons acting in concert” and “concert parties” shall be construed accordingly
“associate(s)”	the meaning ascribed to it in the Takeovers Code
“Authorisation”	all authorisations, registrations, filings, rulings, consents, permissions, waivers, exemptions and approvals required from the Relevant Authorities or other third parties which are necessary for any member of the Group to carry on its business
“Beneficial Owner(s)”	beneficial owner(s) of the Shares
“Board”	the board of Directors of the Company
“Cancellation Price” or “Cancellation Consideration”	the cancellation price of HK\$6.8 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Participant”	a person admitted to participate in CCASS as a participant, including an Investor Participant
“CO Disinterested Shares”	Shares in issue other than those held by: (i) the Offeror or by a nominee on its behalf; (ii) an associate (as defined in section 667(1)(b) of the Companies Ordinance) of the Offeror, except a person who falls within section 667(1)(b)(iii) of the Companies Ordinance or a person specified in section 674(4) of the Companies Ordinance; or (iii) a person who is a party to an acquisition agreement within the meaning of section 667(5) of the Companies Ordinance with the Offeror (except a person specified in section 674(4) of the Companies Ordinance), or by a nominee on behalf of the person under the acquisition agreement, as described in section 674(3)(a) of the Companies Ordinance

DEFINITIONS

“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	China Assets (Holdings) Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange (Stock Code: 170)
“Conditions”	the conditions to the implementation of the Proposal and the Scheme as set out in the section headed “Conditions of the Proposal and the Scheme” of this Scheme Document
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the High Court, notice of which is set out on pages CM-1 to CM-3 of this Scheme Document for the purpose of approving the Scheme, and any adjournment thereof
“Directors”	the directors of the Company
“Effective Date”	the date on which the Scheme becomes effective in accordance with the Companies Ordinance
“EGM”	an extraordinary general meeting of the Company, notice of which is set out on pages EGM-1 to EGM-3 of this Scheme Document to be held after the Court Meeting for the purpose of approving, among other matters, the reduction of the share capital of the Company and implementing the Scheme, and any adjournment thereof
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any of his delegates
“Explanatory Statement”	the explanatory statement in relation to the Scheme set out on pages E-1 to E-21 of this Scheme Document issued in compliance with Section 671 of the Companies Ordinance
“Facility”	a credit facility granted by GF Securities as lender and GF Capital as arranger, to the Offeror as borrower in accordance with the terms of the Facility Agreement for financing the cash required for the Proposal

DEFINITIONS

“Facility Agreement”	the facility agreement entered into among GF Securities as lender, GF Capital as arranger and the Offeror as borrower dated 3 July 2017
“GF Capital”	GF Capital (Hong Kong) Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO
“GF Securities”	GF Securities (Hong Kong) Brokerage Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“Group”	the Company and its subsidiaries
“High Court”	the High Court of Hong Kong
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees Limited”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Independent Board Committee”	the independent board committee of the Company established by the Board to make a recommendation to the Scheme Shareholders in respect of the Scheme, and comprising Mr. Fan Jia Yan, Mr. Wu Ming Yu and Dr. David William Maguire
“Independent Financial Adviser”	Nuada Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Investor Participant”	a person admitted to participate in CCASS as an investor participant

DEFINITIONS

“Joint Announcement”	the joint announcement dated 3 July 2017 issued by the Offeror and the Company in relation to, among other things, the Proposal and the Scheme
“Last Trading Date”	26 June 2017, being the last day of trading in the Shares on the Stock Exchange before the suspension of trading in the Shares pending publication of the Joint Announcement
“Latest Practicable Date”	25 September 2017, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offeror” or “New Synergies”	New Synergies Investments Company Limited, a company incorporated in Hong Kong with limited liability and owned by Mr. Lo Yuen Yat (as to 40%), his brother Mr. Lao Kaisheng (as to 30%) and his sister Ms. Lao Jiangsheng (as to 30%)
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme referred to herein
“Overseas Shareholder(s)”	Shareholder(s) whose address(es), as shown on the register of members of the Company, is/are outside Hong Kong
“Record Date”	6 November 2017
“Registered Owner(s)”	any person(s) (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) whose name(s) is/are entered in the register of members of the Company
“Registrar of Companies”	the Registrar of Companies appointed under the Companies Ordinance
“Relevant Authorities”	governments or governmental bodies, regulatory bodies, courts or institutions having jurisdiction over members of the Group in matters relevant to the Proposal

DEFINITIONS

“Scheme”	the scheme of arrangement to be proposed under section 673 of the Companies Ordinance for the implementation of the Proposal
“Scheme Document”	this scheme document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
“Scheme Shares” or “TC Disinterested Shares”	Share(s) other than those beneficially owned by the Offeror and parties acting in concert with it
“Scheme Shareholders”	registered holders of the Scheme Shares
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) in the capital of the Company
“Shareholder(s)”	registered holder(s) of the Share(s)
“Share Registrar”	Computershare Hong Kong Investor Services Limited, the Company’s share registrar
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“U.S.” or “United States”	United States of America
“US\$”	US dollar(s), the lawful currency of the United States

Unless the context requires otherwise, amounts denominated in US\$ have been translated into HK\$ at the exchange rate of US\$1: HK\$7.75 for the purpose of illustration only. No representation is made that any amount in HK\$ and US\$ could have been or could be converted at the relevant dates at the above rates or at any other rates or at all.

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified.

EXPECTED TIMETABLE

The timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by the Offeror and the Company. Unless otherwise specified, all times and dates refer to Hong Kong local time and dates.

Hong Kong time

Date of despatch of this Scheme Document Thursday, 28 September 2017

Latest time for lodging transfers of the Shares
in order to be entitled to attend and vote at
the Court Meeting and the EGM 4:30 p.m. on
Tuesday, 17 October 2017

Closure of register of members for determination
of entitlement to attend and vote at
the Court Meeting and the EGM (*Note 1*) Wednesday, 18 October 2017 to
Wednesday, 25 October 2017
(both days inclusive)

Latest time and date for lodging forms of proxy in respect of:

the Court Meeting (*Note 2*) 10:00 a.m. on Monday, 23 October 2017

the EGM (*Note 2*) 10:30 a.m. on Monday, 23 October 2017

Court Meeting (*Note 2, 3*) 10:00 a.m. on Wednesday, 25 October 2017

EGM (*Note 2, 3*) 10:30 a.m. on Wednesday, 25 October 2017
(or as soon thereafter as the Court Meeting has
been concluded or adjourned)

EXPECTED TIMETABLE

Announcement of the results of the Court Meeting and the EGM posted on the website of the Stock Exchange	Wednesday, 25 October 2017
Latest time for trading of the Shares on the Stock Exchange	4:00 p.m. on Thursday, 26 October 2017
Suspension of trading of the Shares pending withdrawal of listing	from 9:00 a.m. on Friday, 27 October 2017
Latest time for lodging transfers of the Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Tuesday, 31 October 2017
Register of members of the Company closed for determining entitlements to qualify under the Scheme (<i>Note 4</i>)	From Wednesday, 1 November 2017 onwards
High Court hearing of the petition for the sanction of the Scheme (<i>Note 6</i>)	Friday, 3 November 2017
Announcement of the result of the High Court hearing, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange posted on the website of the Stock Exchange	Friday, 3 November 2017
Record Date	Monday, 6 November 2017
Effective Date (<i>Note 5</i>)	Monday, 6 November 2017

EXPECTED TIMETABLE

Announcement of, among other things, the Effective Date
and the withdrawal of the listing of the Shares on
the Stock Exchange posted on the website of
the Stock Exchange Monday, 6 November 2017

Withdrawal of the listing of the Shares on
the Stock Exchange 9:00 a.m. on Tuesday, 7 November 2017

Cheques for the cash payment under the Proposal
to be despatched on or before (*Note 6*) Wednesday, 15 November 2017

Notes:

1. The register of members of the Company will be closed during such period for the purpose of determining entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM. For the avoidance of doubt, this period of closure is not for determining entitlements of Scheme Shareholders under the Scheme.
2. The pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the EGM should be completed and signed in accordance with the instructions respectively printed thereon and should be lodged at the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by the times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. The white form of proxy for use at the EGM must be lodged no later than the time and date stated above in order for it to be valid. The completion and return of the forms of proxy will not preclude a member from attending and voting in person at the relevant meeting or any adjournment thereof if he so wishes. In such event, the relevant form of proxy shall be deemed to have been revoked.
3. If a tropical cyclone warning signal No.8 or above is or is expected to be hoisted or a black rainstorm warning signal is or is expected to be in force at any time after 7:00 a.m. on the date of the Court Meeting and the EGM, the Court Meeting and the EGM will be postponed. The Company will post an announcement on the respective websites of Hong Kong Exchanges and Clearing Limited and the Company to notify the members of the date, time and venue of the rescheduled meetings.
4. The register of members of the Company will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
5. The Scheme shall become effective when it is sanctioned (with or without modification) by the High Court and an office copy of the order of the High Court, together with the minute and the return containing the particulars required by Section 230 of the Companies Ordinance, are delivered to and registered by the Registrar of Companies in compliance with the procedural requirements of Section 230 and Section 673 of the Companies Ordinance in relation to the reduction of the issued share capital of the Company and the Scheme, respectively.

EXPECTED TIMETABLE

6. Cheques for cash entitlements of Scheme Shareholders will be despatched by ordinary post in envelopes addressed to Scheme Shareholders at their respective addresses as appearing in the register of members at the Record Date or, in the case of joint holders, at the address appearing in the register of members at the Record Date of the joint holder whose name then stands first in the register of members in respect of the relevant joint holdings as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the Effective Date. Cheques shall be posted at the risk of the addressees and none of the Offeror, the Company, GF Capital, the Independent Financial Adviser and the Share Registrar shall be responsible for any loss or delay in receipt.

LETTER FROM THE BOARD

CHINA ASSETS (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 170)

Executive Directors:

Mr. Lo Yuen Yat (*Chairman*)

Mr. Cheng Sai Wai

Non-executive Directors:

Mr. Yeung Wai Kin

Mr. Zhao Yu Qiao

Ms. Lao Yuan Yuan

Registered Office:

19th Floor

Wing On House

71 Des Voeux Road Central

Hong Kong

Independent non-executive Directors:

Mr. Fan Jia Yan

Mr. Wu Ming Yu

Dr. David William Maguire

28 September 2017

To the Shareholders,

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF
CHINA ASSETS (HOLDINGS) LIMITED
BY NEW SYNERGIES INVESTMENTS COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 673
OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHINA ASSETS (HOLDINGS) LIMITED**

INTRODUCTION

The Offeror and the Company jointly announced on 3 July 2017 that on 26 June 2017, the Offeror approached the Board about the Proposal, which, if implemented, together with the transfer of Shares from Mr. Lo Yuen Yat and Mr. Yeung Wai Kin to the Offeror immediately after the Scheme becomes effective, will result in the Company

LETTER FROM THE BOARD

becoming wholly-owned by the Offeror. As at the Latest Practicable Date, the Offeror and parties acting in concert with it owned or controlled 58,267,813 Shares, representing approximately 54.22% of the issued share capital of the Company. The Proposal, if proceeded with, will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance.

If the Proposal is approved and implemented:

- (1) all the Scheme Shares held by the Scheme Shareholders on the Effective Date will be cancelled in exchange for the payment to each Scheme Shareholder of the Cancellation Price in cash for each Scheme Share by the Offeror;
- (2) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the creation of such number of new Shares as is equal to the number of Scheme Shares cancelled. The credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued, credited as fully paid, to the Offeror;
- (3) the withdrawal of the listing of the Shares on the Stock Exchange is expected to take place forthwith following the Effective Date.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and, in particular, the Scheme, and to give you notice of the Court Meeting and of the EGM (together with proxy forms in relation thereto). Your attention is also drawn to (i) the letter from the Independent Board Committee set out on pages 23 to 24 of this Scheme Document; (ii) the letter from the Independent Financial Adviser to the Independent Board Committee set out on pages 25 to 50 of this Scheme Document; (iii) the Explanatory Statement set out on pages E-1 to E-21 of this Scheme Document; and (iv) the terms of the Scheme set out on pages S-1 to S-6 of this Scheme Document.

THE PROPOSAL

Subject to the Conditions described in the section headed "Conditions of the Proposal and the Scheme" in the Explanatory Statement on pages E-1 to E-21 of this Scheme Document being fulfilled or waived (as applicable), the proposed privatisation of the Company will be implemented by way of the Scheme between the Company and the Scheme Shareholders.

LETTER FROM THE BOARD

THE SCHEME

Subject to the Scheme becoming effective, the Scheme Shareholders will receive from the Offeror as Cancellation Consideration:

HK\$6.8 in cash..... for every Scheme Share cancelled

Under the Scheme, the total consideration payable for the Scheme Shares will be payable by the Offeror.

The Cancellation Price will not be increased, and the Offeror does not reserve the right to increase it.

The Cancellation Price of HK\$6.8 per Scheme Share represents:

- (i) a premium of approximately 61.5% over the closing price of HK\$4.21 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a premium of approximately 76.6% over the average closing price of approximately HK\$3.85 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- (iii) a premium of approximately 77.1% over the average closing price of approximately HK\$3.84 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- (iv) a premium of approximately 76.6% over the average closing price of approximately HK\$3.85 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- (v) a premium of approximately 73.9% over the average closing price of approximately HK\$3.91 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- (vi) a discount of approximately 53.8% to the audited consolidated net asset value per Share of approximately US\$1.9 (equivalent to approximately HK\$14.725) as at 31 December 2016; and
- (vii) a premium of approximately 4.9% over the closing price of HK\$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM THE BOARD

The Cancellation Price has been determined after taking into account the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

Assuming that the Scheme becomes effective on Monday, 6 November 2017, cheques for cash entitlements under the Scheme will be despatched as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the Scheme having become effective and accordingly, the cheques are expected to be despatched on or before Wednesday, 15 November 2017. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Company, GF Capital, the Independent Financial Adviser and the Share Registrar will be responsible for any loss or delay in receipt.

TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$6.8 per Scheme Share and 49,193,611 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$334,516,555. The Company had no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue as at the Latest Practicable Date.

The Offeror intends to finance the cash required for the Proposal through (i) the Facility; and/or (ii) its own resources. GF Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for satisfying its obligations in respect of the full implementation of the Proposal.

CONDITIONS OF THE PROPOSAL AND THE SCHEME

The Proposal is subject to the satisfaction or waiver, as applicable, of the Conditions as set out in the section headed “Conditions of the Proposal and the Scheme” in the Explanatory Statement on pages E-3 to E-8 of this Scheme Document.

If the Proposal is withdrawn or lapses, in accordance with Rule 31.1 of the Takeovers Code, except with the consent of the Executive, neither the Offeror nor any person who acted in concert with it in the course of the Proposal, nor any person who is subsequently acting in concert with any of them, may within 12 months from the date on which the Proposal is withdrawn or lapses, either announce an offer or possible offer for the Company or acquire any voting rights of the Company if the Offeror or persons acting in concert with it would thereby become obliged under Rule 26 of the Takeovers Code to make an offer.

LETTER FROM THE BOARD

If approved, the Scheme will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting.

Warning:

Shareholders and potential investors should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant, or other professional advisers.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the issued share capital of the Company was 107,461,424 Shares.

A table setting out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme becoming effective and assuming no other new Shares will be issued prior thereto is to be found in the section headed “Shareholding Structure of the Company and effect of the Proposal and the Scheme” in the Explanatory Statement on pages E-8 to E-10 of this Scheme Document.

As at the Latest Practicable Date, save for Mr. Lo Yuen Yat and Mr. Yeung Wai Kin, the Directors did not hold any Shares.

Assuming that no new Shares will be issued after the Latest Practicable Date up to the Record Date, the Offeror will immediately after the Scheme becomes effective be interested in 107,000,008 Shares, representing 99.6% of the total issued Shares.

As at the Latest Practicable Date, the Scheme Shareholders were interested in an aggregate of 49,193,611 Shares, representing approximately 45.78% of the issued Shares.

As at the Latest Practicable Date, the Offeror and parties acting in concert with it owned or controlled 58,267,813 Shares, representing approximately 54.22% of the issued Shares. The Shares beneficially owned by the Offeror will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting. The Shares beneficially owned by parties

LETTER FROM THE BOARD

acting in concert with the Offeror in respect of the Company, including Mr. Lo Yuen Yat and Mr. Yeung Wai Kin (who is presumed to be acting in concert with all Directors including Mr. Lo Yuen Yat under class (6) of the definition of “acting in concert” under the Takeovers Code), will not form part of the Scheme Shares, will not be voted at the Court Meeting and will not be cancelled upon the Scheme becoming effective, but will be transferred to the Offeror at the Cancellation Price immediately after the Scheme becomes effective. All Shareholders will be entitled to vote on the special resolution to be proposed at the EGM to approve and give effect to the reduction of capital and the implementation of the Scheme. The Offeror has indicated that, if the Scheme is approved at the Court Meeting, the Offeror will vote in favour of the special resolution to be proposed at the EGM to approve and give effect to the Scheme, including the approval of the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of new Shares as is equal to the number of the Scheme Shares cancelled.

Parties acting in concert with the Offeror, including Mr. Lo Yuen Yat and Mr. Yeung Wai Kin, will also be entitled to vote on the special resolution to be proposed at the EGM to approve and give effect to the Scheme. Both Mr. Lo Yuen Yat and Mr. Yeung Wai Kin have indicated that if the Scheme is approved at the Court Meeting, each of them intends to, in respect of each of his own beneficial shareholdings, vote in favour of the special resolution to be proposed at the EGM to approve and give effect to the Scheme.

REASONS FOR AND BENEFITS OF THE PROPOSAL, AND THE OFFEROR’S INTENTION IN RELATION TO THE GROUP

You are urged to read carefully the section headed “Reasons for and benefits of the Proposal, and the Offeror’s intention in relation to the Group” in the Explanatory Statement on pages E-11 to E-12 of this Scheme Document.

FINANCIAL ADVISER TO THE OFFEROR AND INDEPENDENT BOARD COMMITTEE

The Offeror has appointed GF Capital as its financial adviser in connection with the Proposal.

The Independent Board Committee, which comprises all the independent non-executive Directors, namely, Mr. Fan Jia Yan, Mr. Wu Ming Yu and Dr. David William Maguire, has been established by the Board to make a recommendation to the Scheme Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and as to voting. Ms. Lao Yuan Yuan, a non-executive Director, is a daughter of Mr. Lo Yuen

LETTER FROM THE BOARD

Yat and is therefore deemed to be materially interested in the Proposal. Mr. Yeung Wai Kin and Mr. Zhao Yu Qiao, both non-executive Directors, are presumed to be acting in concert with all Directors, including Mr. Lo Yuen Yat under class (6) of the definition of “acting in concert” under the Takeovers Code and therefore are also regarded as having an interest in the Proposal. Ms. Lao Yuan Yuan, Mr. Yeung Wai Kin and Mr. Zhao Yu Qiao therefore cannot be in the Independent Board Committee.

The full text of the letter from the Independent Board Committee is set out on pages 23 to 24 of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER

The Company has, with the approval of the Independent Board Committee, appointed Nuada Limited as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Scheme and the Proposal.

The full text of the letter from the Independent Financial Adviser is set out on pages 25 to 50 of this Scheme Document.

INFORMATION ABOUT THE OFFEROR AND THE COMPANY

Your attention is drawn to Appendix I headed “Financial information of the Group” on pages I-1 to I-67 of this Scheme Document, and the sections headed “Information about the Company” and “Information about the Offeror” in the Explanatory Statement on page E-13 of this Scheme Document.

OVERSEAS SHAREHOLDERS

Your attention is drawn to the section headed “Overseas Shareholders” in the Explanatory Statement on pages E-15 to E-16 of this Scheme Document.

COURT MEETING AND THE EGM

For the purpose of exercising your votes at the Court Meeting and the EGM, you are requested to read carefully the section headed “Court Meeting and the EGM” in the Explanatory Statement on page E-18 of this Scheme Document, the section headed “Actions to be taken” on pages 1 to 4 of this Scheme Document, and the notices of the Court Meeting and the EGM on pages CM-1 to CM-3 and EGM-1 to EGM-3 respectively of this Scheme Document.

LETTER FROM THE BOARD

ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposal are set out under the section headed “Actions to be taken” on pages 1 to 4 of this Scheme Document.

RECOMMENDATION

The Independent Financial Adviser has advised the Independent Board Committee that it considers the terms of the Proposal and the Scheme are fair and reasonable, and accordingly, advises the Independent Board Committee to recommend the Scheme Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

The Independent Board Committee, having considered the terms of the Proposal and the Scheme, and having taken into account the opinion of the Independent Financial Adviser, considers that the terms of the Proposal and the Scheme are fair and reasonable and recommends the Scheme Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

Your attention is drawn to the recommendation of the Independent Financial Adviser to the Independent Board Committee, in respect of the Proposal and the Scheme as set out in the letter from the Independent Financial Adviser on pages 25 to 50 of this Scheme Document. Your attention is also drawn to the recommendation of the Independent Board Committee in respect of the Proposal as set out in the letter from the Independent Board Committee on pages 23 to 24 of this Scheme Document.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company does not intend to retain its listing on the Stock Exchange. The Company will make an application for the listing of the Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from the date on which the Scheme becomes effective.

Subject to the requirements of the Takeovers Code, the Scheme will lapse if any of the conditions described in the section headed “Conditions of the Proposal and the Scheme” has not been fulfilled or waived, as applicable.

LETTER FROM THE BOARD

The Scheme Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

If the Scheme is withdrawn or not approved or sanctioned by the High Court or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

Your attention is drawn to the sections entitled “Withdrawal of the listing of the Shares” and “Entitlements to and payment of Cancellation Consideration” in the Explanatory Statement set out on page E-14 and pages E-14 to E-15, respectively, of this Scheme Document.

TAXATION, EFFECTS AND LIABILITIES

It is emphasised that none of the Offeror, the Company, GF Capital, the Independent Financial Adviser nor any of their respective directors, officers, employees, agents, associates or affiliates or any other persons involved in the Proposal and the Scheme accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal and the Scheme. Accordingly, you are urged to read the section entitled “Taxation and Independent Advice” in the Explanatory Statement set out on page E-16 of this Scheme Document and if you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from the Independent Financial Adviser, as set out on pages 23 to 24, and pages 25 to 50 respectively of this Scheme Document, the Explanatory Statement as set out on pages E-1 to E-21 of this Scheme Document, the appendices to this Scheme Document, the terms of the Scheme as set out on pages S-1 to S-6 of this Scheme Document, the notice of Court Meeting on pages CM-1 to CM-3 of this Scheme Document and the notice of the EGM as set out on pages EGM-1 to EGM-3 of this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Shares.

Yours faithfully,
By order of the Board
Lo Yuen Yat
Chairman

CHINA ASSETS (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 170)

28 September 2017

To the Scheme Shareholders,

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF
CHINA ASSETS (HOLDINGS) LIMITED
BY NEW SYNERGIES INVESTMENTS COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION
673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHINA ASSETS (HOLDINGS) LIMITED**

We refer to the document dated 28 September 2017 jointly issued by the Offeror and the Company in relation to the Proposal (the “**Scheme Document**”), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to make a recommendation to the Scheme Shareholders in respect of the Proposal and the Scheme respectively, details of which are set out in the “Letter from the Board” and the “Explanatory Statement” of this Scheme Document.

Nuada Limited, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal and the Scheme. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the “Letter from the Independent Financial Adviser” of this Scheme Document.

In the “Letter from the Independent Financial Adviser” of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal and the Scheme are fair and reasonable, and advises the Independent Board Committee to recommend the Scheme Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, having considered the terms of the Proposal and the Scheme, and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter, considers that the terms of the Proposal and the Scheme are fair and reasonable. Accordingly, the Independent Board Committee recommends the Scheme Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

The Independent Board Committee draws the attention of the Scheme Shareholders to (i) the “Letter from the Board” set out in this Scheme Document; (ii) the “Letter from the Independent Financial Adviser”, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, set out in this Scheme Document; and (iii) the Explanatory Statement set out in this Scheme Document.

Yours faithfully,
the Independent Board Committee

Mr. Fan Jia Yan
*Independent non-executive
Director*

Mr. Wu Ming Yu
*Independent non-executive
Director*

Dr. David William Maguire
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Nuada Limited, the independent financial adviser to the Independent Board Committee in respect of the Proposal and the Scheme prepared for the purpose of inclusion in this scheme document.

Nuada Limited

Unit 1805-08, 18/F
OfficePlus@Sheung Wan
93-103 Wing Lok Street
Sheung Wan, Hong Kong
香港上環永樂街93-103號
協成行上環中心18樓1805-08室

28 September 2017

*To the Independent Board Committee of
China Assets (Holdings) Limited*

Dear Sirs,

**PROPOSAL FOR THE PRIVATISATION OF
CHINA ASSETS (HOLDINGS) LIMITED
BY NEW SYNERGIES INVESTMENTS COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 673
OF THE COMPANIES ORDINANCE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Proposal and the Scheme, the details of which are set out in the Letter from the Board (the “**Board’s Letter**”) in the scheme document jointly issued by the Offeror and the Company to the Shareholders dated 28 September 2017 (the “**Scheme Document**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context requires otherwise.

The Offeror and the Company jointly announced on 3 July 2017 that on 26 June 2017, the Offeror approached the Board about the Proposal, which, if implemented, together with the transfer of Shares from Mr. Lo Yuen Yat and Mr. Yeung Wai Kin to the Offeror immediately after the Scheme becomes effective, will result in the Company becoming wholly-owned by the Offeror. As at the Latest Practicable Date, the Offeror and parties acting in concert with it owned or controlled 58,267,813 Shares, representing approximately 54.22% of the issued share capital of the Company. The Proposal, if proceeded with, will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Board's Letter, if the Proposal is approved and implemented:

- (1) all the Scheme Shares held by the Scheme Shareholders on the Effective Date will be cancelled in exchange for the payment to each Scheme Shareholder of the Cancellation Price in cash for each Scheme Share by the Offeror;
- (2) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the creation of such number of new Shares as is equal to the number of Scheme Shares cancelled. The credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued, credited as fully paid, to the Offeror; and
- (3) the withdrawal of the listing of the Shares on the Stock Exchange is expected to take place forthwith following the Effective Date.

The Independent Board Committee, which comprises all the independent non-executive Directors, namely, Mr. Fan Jia Yan, Mr. Wu Ming Yu and Dr. David William Maguire, has been established by the Board to make a recommendation to the Scheme Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and as to voting. Ms. Lao Yuan Yuan, a non-executive Director, is a daughter of Mr. Lo Yuen Yat and is therefore deemed to be materially interested in the Proposal. Mr. Yeung Wai Kin and Mr. Zhao Yu Qiao, both non-executive Directors, are presumed to be acting in concert with all Directors, including Mr. Lo Yuen Yat under class (6) of the definition of "acting in concert" under the Takeovers Code and therefore are also regarded as having an interest in the Proposal. Ms. Lao Yuan Yuan, Mr. Yeung Wai Kin and Mr. Zhao Yu Qiao therefore cannot be in the Independent Board Committee. We, Nuada Limited, with the approval of the Independent Board Committee, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal and the Scheme.

We, Nuada Limited, did not act as financial adviser or independent financial adviser to other transactions of the Company and the Offeror in the last two years. We are independent from, and are not associated with the Company, the Offeror, or any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser to the Independent Board Committee, no arrangement exists whereby we will receive any fees or benefits from the abovementioned parties or any party acting, or presumed to be acting, in concert with any

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of them, any of their respective associates, close associates or core connected persons or other parties that could be regarded as relevant to our independence. Accordingly, we are considered eligible to give independent advice in respect of the Proposal and the Scheme to the Independent Board Committee in accordance with Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Scheme Document and the representations made to us by the Directors and the management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and that the Scheme Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Scheme Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Scheme Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Scheme Document (other than those expressed by the Directors (excluding Mr. Lo Yuen Yat)) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document the omission of which would make any statements in the Scheme Document misleading.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Offeror and parties acting in concert with it (excluding the non-executive Directors)) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than those expressed by the sole director of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document the omission of which would make any statements in the Scheme Document misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Scheme Shareholders as a result of the Proposal and the Scheme. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal and the Scheme, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Company is incorporated in Hong Kong with limited liability and the Shares have been listed on the Stock Exchange since 1992. The Company is an investment company listed under Chapter 21 of the Listing Rules and its subsidiaries are principally engaged in investment activities.

Set out below is a summary of the Group's operating results and financial position extracted from the Company's annual reports for the year ended 31 December 2014 (the "**Annual Report 2014**"), 2015 (the "**Annual Report 2015**") and 2016 (the "**Annual Report 2016**") respectively, and interim report for the six months ended 30 June 2017 (the "**Interim Report 2017**").

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Operating results

	For the six months ended		For the year ended		
	30 June		31 December		
	2017	2016	2016	2015	2014
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Income	483,475	287,515	846,867	810,309	862,415
Operating profit/(loss)	<u>5,669,213</u>	<u>(863,302)</u>	<u>12,284,928</u>	<u>11,598,071</u>	<u>8,748,738</u>
Profit/(loss) before income tax	5,215,743	(1,217,012)	12,364,320	11,075,584	10,650,869
Profit/(loss) for the period/ year attributable to equity holders of the Company	<u>5,208,376</u>	<u>(1,323,556)</u>	<u>12,364,320</u>	<u>11,115,954</u>	<u>9,725,717</u>
Other comprehensive (loss)/ income, net of tax	(7,706,906)	(30,583,197)	(47,950,250)	17,090,919	28,594,604
Total comprehensive (loss)/ income for the period/ year attributable to equity holders of the Company	<u><u>(2,498,530)</u></u>	<u><u>(31,906,753)</u></u>	<u><u>(35,585,930)</u></u>	<u><u>28,206,873</u></u>	<u><u>38,320,321</u></u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial position

	As at			
	30 June	As at 31 December		
	2017	2016	2015	2014
	US\$ (unaudited)	US\$ (audited)	US\$ (audited)	US\$ (audited)
Non-current assets	125,111,824	133,616,591	180,196,170	153,050,696
Interests in associates	77,619,174	77,582,945	78,005,948	72,341,803
Available-for-sale financial assets	47,492,650	56,033,646	102,190,222	80,708,893
Current assets	79,833,973	74,700,973	48,207,173	45,691,956
Loan receivable	—	—	—	8,041,300
Other receivables, prepayments and deposits	311,947	224,245	367,068	206,128
Amount due from a related company	21,507	3,558	—	—
Financial assets at fair value through profit or loss	7,115,690	6,168,912	5,055,595	7,004,648
Tax recoverable	51,937	51,937	—	70,253
Short-term bank deposits with initial terms of over three months	—	—	—	4,144,215
Cash and cash equivalents	72,332,892	68,252,321	42,784,510	26,225,412
Current liabilities	2,870,223	3,743,460	3,568,912	2,115,094
Net assets	<u>202,075,574</u>	<u>204,574,104</u>	<u>224,834,431</u>	<u>196,627,558</u>

For the year ended 31 December 2015 (“FY2015”)

Profit for the year attributable to equity holders of the Company increased by approximately 14.4% from approximately US\$9.7 million for the year ended 31 December 2014 (“FY2014”) to approximately US\$11.1 million for FY2015. We noted from the Annual Report 2014 and Annual Report 2015 respectively that the profit for FY2014 was mainly due to (i) a profit (net of taxation) of approximately US\$3.7 million from disposal of a portion of its indirect equity in and related loan to Shanghai International Medical Centre Co Ltd; (ii) a profit (net of taxation) of approximately US\$5.9 million from disposal of a portion of its equity investment in Shangdong Lukang Pharmaceutical Co. Ltd (“Lukang”) and; (iii) a share of net

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

profit from its associated companies of approximately US\$1.9 million, while the profit for FY2015 mainly comprised of (i) a profit (net of taxation) of approximately US\$15.6 million arising from disposal of a portion of its equity investment in Lukang; and (ii) a profit (net of taxation) of approximately US\$4.0 million (including reversal of provision) from disposal of its remaining holding in Ragentek Technology Group Limited. For FY2015, the Company paid a management fee and performance bonus of approximately US\$4.1 million.

Profit of a company reflects its core operations' realised profit. For a company with only investment portfolios, unrealised gains and losses for a year are not included in its annual profit attributable to equity holders under the income statement. Other comprehensive income provides details about unrealised gains and losses. Given the diversified investments held by the Company, we also studied its other comprehensive income to understand the unrealised gains or losses from its investment portfolio. Other comprehensive income of the Company amounted to approximately US\$17.1 million for FY2015, representing a decrease of approximately 40.2% from approximately US\$28.6 million for FY2014. Such decrease in other comprehensive income was mainly attributable to (i) loss from share of post-acquisition reserves of associates of approximately US\$6.5 million for FY2015 (FY2014: gain of approximately US\$6.5 million); and (ii) loss from release of investment revaluation reserve upon disposal of an available-for-sale financial asset of approximately US\$13.3 million (FY2014: loss of approximately US\$4.8 million).

The total comprehensive income shows the aggregate profitability of a company taking into account its profit and other comprehensive income. Total comprehensive income of the Company recorded approximately US\$28.2 million for FY2015, decreased by approximately 26.4% from approximately US\$38.3 million for FY2014. Such decrease was mainly attributable to the decline in other comprehensive income in FY2015 as explained above.

For the year ended 31 December 2016 (“FY2016”)

Profit for the year attributable to equity holders of the Company increased by approximately 11.7% from approximately US\$11.1 million for FY2015 to approximately US\$12.4 million for FY2016. As stated in the Annual Report 2016, the result was mainly due to the profit (net of taxation) of approximately US\$16.3 million arising from disposal of portion of its equity investment in Lukang.

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Other comprehensive loss of the Company was approximately US\$48.0 million for FY2016, as opposed to a gain of approximately US\$17.1 million in FY2015. Such other comprehensive loss was mainly attributable to the fair value losses of available-for-sale financial assets of approximately US\$28.7 million recorded for FY2016 (FY2015: gains of approximately US\$38.1 million).

The Company recorded total comprehensive loss of approximately US\$35.6 million for FY2016, as compared to income of approximately US\$28.2 million for FY2015. The loss was mainly attributable to the other comprehensive loss incurred in FY2016 as explained above.

For the six months ended 30 June 2017

Profit/loss attributable to equity holders of the Company recorded a turnaround from a loss of approximately US\$1.3 million for the six months ended 30 June 2016 to a profit of approximately US\$5.2 million for the corresponding period in 2017. As disclosed in the Interim Report 2017, the result was mainly due to the gain from disposal of 4 million shares in Lukang.

Other comprehensive loss of the Company reported was approximately US\$7.7 million for the six months ended 30 June 2017, representing a drop of approximately 74.8% from approximately US\$30.6 million for the corresponding period in 2016. Such decrease in other comprehensive loss was mainly attributable to the decrease in fair value losses of available-for-sale financial assets of approximately US\$26.5 million between the two periods.

The Company recorded a total comprehensive loss of approximately US\$2.5 million for the six months ended 30 June 2017, decreasing by approximately 92.2% from approximately US\$31.9 million for the corresponding period in 2016. The decrease of comprehensive loss was mainly attributable to the decrease in other comprehensive loss incurred for the six months ended 30 June 2017 as explained above.

Financial position

As at 30 June 2017, the Group's total assets amounted to approximately US\$204.9 million, mainly comprising (i) interests in associates of approximately US\$77.6 million which represent approximately 37.9% of the Group's total assets; (ii) cash and cash equivalents of approximately US\$72.3 million which represent approximately 35.3% of the Group's total assets, the majority of which were the

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RMB deposits kept in a bank in the PRC and restricted for use under applicable foreign exchange regulations, details of which are discussed in the section headed “2. Business prospects of the Group” below; and (iii) available-for-sale financial assets of approximately US\$47.5 million which represent approximately 23.2% of the Group’s total assets. Interests in associates consisted of listed and unlisted companies. Available-for-sale financial assets comprised of listed equity securities, unlisted investment funds and unlisted equity security. As at 30 June 2017, the Group’s total liabilities amounted to approximately US\$2.9 million, mainly comprising other payables and accrued expenses of approximately US\$2.5 million which represented approximately 86.2% of the Group’s total liabilities. As at 30 June 2017, the unaudited consolidated net asset value of the Group amounted to approximately US\$202.1 million.

2. Business prospects of the Group

The Company is an investment company listed under Chapter 21 of the Listing Rules and its subsidiaries are principally engaged in investment activities. As advised by the management of the Company, the Company expects to continue adopting a conservative approach in future investments and to focus on investment opportunities related to the medical service and health care sectors. This approach is deemed to be prudent to fulfill the Company’s goal of long-term appreciation and preservation of capital value. The Company believes that its conservative investment approach and strategy may result in divergence between the Group’s view to achieve potential long-term value appreciation and the Scheme Shareholders’ view on short term profitability and share price performance.

We noted from the annual reports of the Company that its major investments mainly consist of listed securities and enterprises in Hong Kong and the PRC including First Shanghai Investments Limited (“FSIL”) and Lukang. The financial performance of the Group is mainly subject to the sentiment of the stock markets in Hong Kong and the PRC for listed associates and investments as well as the financial performance of its unlisted investments.

We studied the Hang Seng Index, Shanghai Composite Index and Shenzhen Composite Index for the period from 1 January 2015 up to and including the Latest Practicable Date to understand the recent stock market in Hong Kong and the PRC. The Hang Seng Index dropped from the highest level of 28,442.75 on 28 April 2015 to the lowest level of 18,319.58 on 12 February 2016. The Hang Seng Index gradually picked up thereafter reaching 28,159.77 on 18 September 2017. The Shanghai Composite Index and the Shenzhen Composite Index performed similarly.

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The Shanghai Composite Index and the Shenzhen Composite Index reached the peak of 5,166.35 and 18,098.27 respectively on 12 June 2015, and then dropped to 2,655.66 and 9,082.59 respectively on 28 January 2016. Since then, both indices fluctuated, ranging from around 2,700 to 3,400, and from around 9,100 to 11,200 respectively.

As the share price movement of the Group's investment portfolio may directly affect the assets and profitability of the Group, we further studied the share price movement of the two major investments of the Group for FY2016, being (i) FSIL, a company listed on the Stock Exchange and its carrying value accounted for approximately 30% of the total assets of the Group for FY2016, and (ii) Lukang, a company listed on the Shanghai Stock Exchange and its carrying value accounted for approximately 20% of the total assets of the Group for FY2016.

The share closing price of FSIL was at peak of HK\$2.6 on 29 April 2015. Thereafter, its share closing price declined to a trough at HK\$1.0 on 12 February 2016. FSIL's share closing price then fluctuated and recorded HK\$1.07 as at the Latest Practicable Date. Lukang's share closing price was RMB24.43 on 11 June 2015. For FY2016, its share price dropped from RMB13.35 at the beginning of 2016 to RMB9.71 at end of the year, representing a decrease of approximately 27.3%. As at the Latest Practicable Date, its closing price was RMB8.96.

Reference is made to《上海證券交易所上市公司股東及董事、監事、高級管理人員減持股份實施細則》(in English, for identification purpose only, "Rules regarding disposal of shares of listed issuers on Shanghai Stock Exchange by its substantial shareholders, executive directors and supervisors", the "**Disposal Rules**") published by Shanghai Stock Exchange and effective since 27 May 2017. We note that under the Disposal Rules, the Company is restricted from disposing of its shareholding interest through the market by more than 1% of the total issued share capital of Lukang during any 90 consecutive days. As advised by the management of the Company, the Company held an approximately 4.30% equity interest in Lukang as at 30 June 2017. While the Lukang shares held by the Company can be disposed of within one and a quarter years, it is uncertain whether the Company can seize the opportunity to sell them at a satisfactory price given (i) the decreasing trend in closing price of Lukang since 11 June 2015; and (ii) the disposal has to be subject to restriction on the quantity sold in each 90 consecutive days.

Other than FSIL and Lukang, we also studied other major long-term investments of the Group each of which accounted for more than 1% of the total assets of the Group as at 31 December 2016 according to the Annual Report 2016, namely Shanghai

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International Medical Centre Co Ltd (6.24%), China Pacific Insurance (Group) Co Ltd (2.83%), Red Stone Fund (1.90%) and China Alpha Fund (1.58%). Shanghai International Medical Centre Co Ltd, which is classified as investment in associates, recorded, adjusted under Hong Kong Financial Reporting Standards, a loss of approximately RMB69.45 million for FY2016, of which the Group shared a loss of approximately RMB13.88 million. As at 31 December 2016, the fair value of China Pacific Insurance (Group) Co Ltd, which is classified as available-for-sale financial assets, was stated at approximately US\$5.89 million and an unrealised fair value loss of approximately US\$0.88 million was debited to the investment revaluation reserve. The fair value of Red Stone Fund, which classified as available-for-sale financial assets, was approximately US\$3.95 million as at 31 December 2016, resulting in a valuation surplus of approximately US\$1.51 million being credited to the investment revaluation reserve. The share of net asset value of China Alpha Fund, which classified as available-for-sale financial assets, attributable to the Company was approximately US\$3.30 million while the cost of which was approximately US\$2.77 million.

As advised by the management of the Company, it is noted that no dividend has been declared by the Group since 1997 although net profits were recorded in the preceding financial years. Given its historical dividend policy for the last 20 years, it is uncertain whether and when its policy will be changed. It should hence be noted that, even if there may be additional cash inflow from disposal of investments, there is no guarantee that the Company will declare dividends in the foreseeable future.

We noted from the management of the Company that the Company held an approximately RMB350.3 million bank deposit in the PRC as at 30 June 2017, which was mainly the proceeds from the disposals of its portion of Lukang shareholding in recent years. Such amount was nonetheless not readily available for any usage in the PRC nor permitted for immediate repatriation to Hong Kong due to the foreign exchange rules and regulations. In accordance with 《中國人民銀行辦公廳文件 銀辦法[2009] 178號》(in English, for identification purpose only, Document of the General Office of the People Bank of China (2009) (No.178)), the Company has to convert the RMB proceeds to US\$ and remit them offshore once approval is given. On the other hand, pursuant to 《合格境外機構投資者境內證券投資外匯管理規定》(in English, for identification purpose only, Provisions on the Administration of Foreign Exchange in Domestic Securities Investments for Qualified Foreign Institutional Investors), in order to get RMB for its investments in the PRC, the Company has to get the approval of the relevant regulatory bodies in the PRC to convert its US\$ in Hong Kong to RMB in the PRC. In short, we noted from the management of the Company that such process is time consuming. Based on past experience of the management of the Company, the time required to get the clearance of the taxation bureau and the State Administration of Foreign Exchange for such

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exchanges has been lengthy. As such, the management of the Company considers that timely conclusion of investment proposals in the PRC would be hindered by the uncertainty of the time for currency exchange.

Despite the Hang Seng Index reached a crest in August 2017, we noted that (i) the Shanghai Composite Index and Shenzhen Composite Index have not recovered from the slump between mid of 2015 and early 2016; (ii) the share price performances of FSIL and Lukang, the major investments of the Group for FY2016, remained weak as at the Latest Practicable Date; (iii) the overall performance of other investments attributable to the Group were unsatisfactory; (iv) the Disposal Rules hinder the flexibility of the Company from disposing of its shareholding interest in Lukang for realizing its investment; and (v) the timely conclusion of investment proposals would be hindered by the uncertainty of the time for currency exchange, we consider the prospect of the Group remains uncertain.

3. Information about the Offeror and the Offeror's intention in relation to the Group

As at the Latest Practicable Date, the Offeror and parties acting in concert with it owned or controlled 58,267,813 Shares, representing approximately 54.22% of the issued share capital of the Company. The Proposal, if implemented, together with the transfer of Shares from Mr. Lo Yuen Yat and Mr. Yeung Wai Kin to the Offeror immediately after the Scheme becomes effective, will result in the Company become wholly-owned by the Offeror and the withdrawal of listing of the Shares from the Stock Exchange.

The Offeror is a company incorporated in Hong Kong owned as to 40% by Mr. Lo Yuen Yat, the chairman and an executive Director, as to 30% by his brother Mr. Lao Kaisheng, and as to 30% by his sister Ms. Lao Jiangsheng. Mr. Lo Yuen Yat 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 as well as the chairman and managing director of FSIL which is an associated company of the Company. Mr. Lao Kaisheng and Ms. Lao Jiangsheng are currently in retirement and neither of them holds any position in the Offeror.

As stated in the Scheme Document, the Offeror intends to continue the existing business of the Company upon successful implementation of the Proposal and the Scheme. The Offeror has no intention to make any major changes to the existing operations and business, or to discontinue the employment of the employees of the Group after implementation of the Proposal and the Scheme. However, the Offeror will continue to assess business opportunities as they arise.

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4. Principal terms of the Proposal and the Scheme

Subject to the Conditions being fulfilled or waived, as applicable, the proposed privatisation of the Company will be implemented by way of the Scheme between the Company and the Scheme Shareholders.

The Scheme involves a reduction of the issued share capital of the Company by the cancellation of the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the creation of such number of new Shares as is equal to the number of Scheme Shares cancelled. The credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued, credited as fully paid, to the Offeror. The Scheme provides that, in consideration of the cancellation of the Scheme Shares, the Scheme Shareholders whose names appear on the register of members of the Company on the Record Date, will be entitled to receive from the Offeror:

HK\$6.8 in cash for every Scheme Share cancelled

The Offeror has advised that the Cancellation Price will not be increased, and the Offeror does not reserve the right to so increase it. Please refer to the Scheme Document for further details of the Scheme.

The Cancellation Price of HK\$6.8 per Scheme Share represents:

- (i) a premium of approximately 61.5% over the closing price of HK\$4.21 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a premium of approximately 76.6% over the average closing price of approximately HK\$3.85 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- (iii) a premium of approximately 77.1% over the average closing price of approximately HK\$3.84 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;

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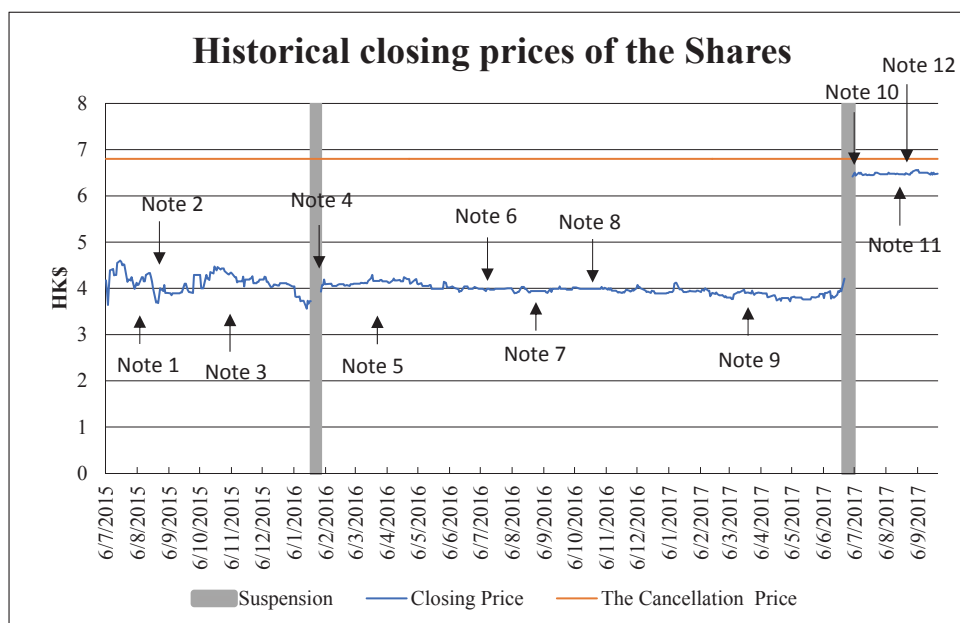
- (iv) a premium of approximately 76.6% over the average closing price of approximately HK\$3.85 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- (v) a premium of approximately 73.9% over the average closing price of approximately HK\$3.91 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- (vi) a discount of approximately 53.8% to the audited consolidated net asset value per Share of approximately US\$1.9 (equivalent to approximately HK\$14.725) as at 31 December 2016;
- (vii) a discount of approximately 53.3% to the unaudited consolidated net asset value per Share of approximately US\$1.880 (equivalent to approximately HK\$14.570) as at 30 June 2017; and
- (viii) a premium of approximately 4.9% over the closing price of HK\$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Cancellation Price has been determined after taking into account the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

4.1 Review on Share price performance

In order to assess the fairness and reasonableness of the Cancellation Price, we have reviewed the daily closing prices of the Shares as quoted on the Stock Exchange during the last two years preceding the date of the Joint Announcement (the “**Pre-Announcement Period**”) and up to the Latest Practicable Date (the “**Post-Announcement Period**”) (collectively, the “**Review Period**”), for the purpose of illustrating the trend of the share price performance of the Shares. The chart below illustrates the daily closing price of the Shares versus the Cancellation Price of HK\$6.8 during the Review Period.

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Source: Website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Publication of announcement of positive profit alert.
2. Publication of announcement of interim results for the six months ended 30 June 2015.
3. Publication of announcement relating to the lapse of amended investment management agreement.
4. Publication of announcement relating to possible change of control and conditional cash offers of the Company.
5. Publication of announcement of annual results for the year ended 31 December 2015.
6. Publication of announcement of profit warning.
7. Publication of announcement of interim results for the six months ended 30 June 2016.
8. Publication of announcement relating to a proposed open offer.
9. Publication of announcement of annual results for the year ended 31 December 2016.
10. Publication of announcement of the Joint Announcement.
11. Publication of announcement of positive profit alert.
12. Publication of announcement of interim results for the six months ended 30 June 2017.
13. During the Review Period, trading of Shares was suspended (i) from 25 January 2016 to 29 January 2016, pending the release of announcement in relation to possible change of control and conditional cash offers of the Company and (ii) from 27 June 2017 to 3 July 2017, pending the release of the Joint Announcement.

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During the Pre-Announcement Period, the Share closing price recorded a slight upward trend in July 2015, primarily attributable to a possible disposal of shares in Lukang which constituted a very substantial disposal of the Company initially announced on 22 June 2015. Thereafter, the closing price of the Shares fluctuated between HK\$3.56 and HK\$4.60. On 29 January 2016, the Company announced a possible change of control and conditional cash offers of the Company. The offer prices were HK\$4.086 for each offer Share and HK\$0.01 for cancellation of each option of the Company. The cash offers opened for acceptance on 16 April 2016, became unconditional on 25 April 2016, and closed on 9 May 2016. Subsequent to the resumption of trading of Shares after the release of announcement in relation to possible change of control and conditional cash offers of the Company on 29 January 2016, the Share closing price jumped and sustained at a level around HK\$4.0 until the end of the Pre-Announcement Period. During the Pre-Announcement Period, the lowest and highest closing price of the Shares were HK\$3.56 per Share recorded on 18 January 2016 (the “**Pre-Announcement Lowest Price**”) and HK\$4.60 per Share recorded on 20 July 2015 (the “**Pre-Announcement Highest Price**”) respectively. The Cancellation Price represents (i) a premium of approximately 91.0% over the Pre-Announcement Lowest Price; and (ii) a premium of approximately 47.8% over the Pre-Announcement Highest Price.

For the Post-Announcement Period, the Share price surged to HK\$6.42 on 4 July 2017 and subsequently fluctuated at similar levels.

During the Review Period, the lowest and highest closing price of the Shares were HK\$3.56 per Share recorded on 18 January 2016 (the “**Lowest Price**”) and HK\$6.56 per Share recorded on 4 September 2017 and 6 September 2017 (the “**Highest Price**”) respectively. The Cancellation Price represents (i) a premium of approximately 91.0% over the Lowest Price; and (ii) a premium of approximately 3.7% over the Highest Price. The closing price of the Shares was below the Cancellation Price throughout the Review Period. Given that the Share price (i) was fluctuated between HK\$3.56 and HK\$4.60 during the Pre-Announcement Period; and (ii) only jumped to high level between HK\$6.42 and HK\$6.56 during the Post-Announcement Period, it is uncertain whether the Share price would remain at such level if the Proposal and the Scheme lapse.

4.2 Liquidity of the Shares

The table below sets out (i) the total trading volume of the Shares for each month/period; (ii) the approximate average daily trading volume of the Shares; and (iii) the approximate percentage of average daily trading volume of the Shares to the total number of issued Shares as at the end of the month/period during the Review Period.

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Month/period	Total trading volume of the Shares	Average daily trading volume of the Shares	Percentage of average daily trading volume to the total number of issued Shares as at the end of the month/period
2015			
July (from 4 July 2015)	2,972,000	148,600	0.19%
August	699,000	33,286	0.04%
September	257,000	12,850	0.02%
October	289,000	14,450	0.02%
November	379,000	18,048	0.02%
December	240,000	10,909	0.01%
2016			
January	341,000	22,733	0.03%
February	1,359,000	75,500	0.10%
March	994,000	47,333	0.06%
April	821,000	41,050	0.05%
May	1,094,000	52,095	0.07%
June	497,000	23,667	0.03%
July	291,000	14,550	0.02%
August	475,000	21,591	0.03%
September	225,000	10,714	0.01%
October	130,000	6,842	0.01%
November	3,260,280	148,195	0.19%
December	1,688,942	84,447	0.08%
2017			
January	567,000	29,842	0.03%
February	1,004,000	50,200	0.05%
March	780,000	33,913	0.03%
April	305,000	17,941	0.02%
May	680,000	34,000	0.03%
June	1,657,208	92,067	0.09%
July	9,948,641	497,432	0.46%
August	1,359,000	61,773	0.06%
September (up to the Latest Practicable Date)	1,650,000	97,059	0.09%

Source: Website of the Stock Exchange (www.hkex.com.hk)

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Notes:

1. During the Review Period, trading of Shares was suspended (i) from 25 January 2016 to 29 January 2016, pending the release of announcement in relation to possible change of control and conditional cash offers of the Company and (ii) from 27 June 2017 to 3 July 2017, pending the release of the Joint Announcement.
2. The total number of issued Shares for the month/period is based on the number of issued Shares in issue as disclosed in the respective monthly return of the Company.

During the Pre-Announcement Period, the average daily trading volume per month/period was generally less than 0.10%, except for those in July 2015 (0.19%), February 2016 (0.10%) and November 2016 (0.19%). We noted that an announcement in relation to a possible disposal of shares in Lukang (a very substantial disposal) of the Company was announced on 22 June 2015, which caused the trading volume in July 2015 amounted to approximately 0.21%. On 29 January 2016, the Company published an announcement in relation to a possible change of control and conditional cash offers, which resulted in the average daily trading volume recorded approximately 0.10% in February 2016. On 31 October 2016, the Company announced a proposed open offer. Subsequent to such announcement and in November 2016, the average daily trading volume recorded approximately 0.19% of the number of Shares in issue as at the end of the relevant month/period. For the Post-Announcement Period, after publication of the Joint Announcement, the daily trading volume recorded approximately 3.62% and 1.57% on 4 July 2017 and 5 July 2017 respectively, resulting the average daily trading volume recorded the highest at approximately 0.46% in July 2017.

The average daily trading volume per month/period during the Review Period ranged from 6,842 Shares to 497,432 Shares, representing approximately 0.01% to 0.46 % of the number of Shares in issue as at the end of the month/period. During the Review Period, the average daily trading volume per month/period was generally low.

Given the generally low trading volume of the Shares during the Review Period, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Scheme Shareholders to dispose of a significant number of the Shares in the open market within a short period of time without depressing the Share price. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Scheme Shareholders can receive by the disposal of their Shares in the open market. As such, we are of the view that the Proposal and the Scheme provide a viable alternative exit for the Scheme Shareholders, particularly for those who hold a large volume of the Shares, to realise their investments in the Company.

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4.3 *Historical discount of market price to net asset value*

Set out below in the table are the percentage of discount of the average closing price per Share to the net asset value per Share for the year ended 31 December 2015 and 2016, and the six months ended 30 June 2017 and the Cancellation Price.

For the	Average closing price per Share HK\$	Net asset value per Share as at the end of the respective financial year/period (Note 1) HK\$	Discount of average closing price to net asset value per Share as at the end of the respective financial year/period %
Year ended 31 December 2015	4.60	22.70	79.7
Year ended 31 December 2016	4.01	14.75	72.8
Six months ended 30 June 2017	3.88	14.57	73.4
Cancellation Price	—	—	53.3 (Note 2)

Source: Website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Based on the consolidated net asset value attributable to the equity holders extracted from the published annual/interim financial report/ results announcement during the respective financial year/period over the total issued share capital of the Company as at the respective financial year/period end.
2. Based on the unaudited consolidated net asset value attributable to the equity holders as at 30 June 2017.
3. For the purpose of this table, the translation of US\$ into HK\$ is based on the average exchange rate of US\$1.00 to HK\$7.75 for the purpose of illustration only.

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As stated above, the discounts of average prices per Share to net asset values per Share ranged from 72.8% to 79.7%. The discount of the Cancellation Price to the net asset value per Share of approximately 53.3% is lower than that as at 31 December 2015 and 2016, and 30 June 2017. It is uncertain whether relatively much smaller discount (i.e. 53.3%) of the Share price to the net asset value per Share could be realised in the near future by the Shareholders if the Proposal and the Scheme lapse.

4.4 Market comparable analysis

As discussed above, the Company is an investment company listed under Chapter 21 of the Listing Rules and its subsidiaries are principally engaged in investment activities. Therefore, we have identified 5 companies (the “**Comparable Companies**”) which are (i) investment companies listed under Chapter 21 of the Listing Rules; and (ii) with net asset value between HK\$800 million and HK\$2,400 million (with reference to the Group’s consolidated net asset value of approximately HK\$1,566.1 million according to its latest published financial statements). The Comparable Companies set out in the table below represent all the companies comparable to the Company based on the above criteria.

We have considered using price to total comprehensive income ratios and price to book ratios (“**P/B Ratios**”) for comparison. As discussed in the section headed “1. Background information of the Group” above, total comprehensive income shows both the realised profit and unrealised other comprehensive income of the Company. Instead of price to earnings ratio, we consider price to total comprehensive income ratio reflects the value of the Company and the Comparable Companies more comprehensively given the business nature of them. However, as the Company recorded a total comprehensive loss for FY2016, no analysis can be performed using such ratio. We therefore compare the Company with the Comparable Companies by adopting price to book ratios (“**P/B Ratios**”) only. We consider P/B Ratios are suitable for determining the value of the Company because of its asset-based business nature.

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The table below sets out the comparison of the P/B Ratios of the Comparable Companies and the Company:

No.	Company	Stock code	Market capitalisation as at the Latest Practicable Date (Note 1) HK\$' million	Net asset value attributable to owners of the respective Comparable Companies (Note 2) HK\$' million	P/B Ratio (Note 2)
1	SHK Hong Kong Industries Limited	666	633.20	1,269.81	0.50
2	China Financial International Investments Limited	721	2,709.99	1,656.40	1.64
3	China Development Bank International Investment Limited	1062	798.11	1,455.52	0.55
4	China Investment and Finance Group Limited	1226	155.78	1,439.50	0.11
5	Capital VC Limited	2324	140.50	1,505.88	0.09
				Median	0.50
				Minimum	0.09
				Maximum	1.64
	The Company	170	730.74 (Note 3)	1,566.09 (Note 4)	0.47

Notes:

1. Based on the number of shares in issue and the closing price of the shares of the respective Comparable Companies as at the Latest Practicable Date.
2. The net asset value attributable to owners of the respective Comparable Companies is based on the relevant latest published financial results of the respective Comparable Companies. The P/B Ratio is based on the market capitalisation as at the Latest Practicable Date and the latest published net asset value attributable to owners of the respective Comparable Companies.
3. Theoretical market capitalisation of the Company is based on the sum of the Cancellation Price of HK\$6.8 per Scheme Share times the number of Shares in issue as at the Latest Practicable Date.
4. Based on the unaudited consolidated net asset value attributable to the equity holders as at 30 June 2017.
5. For the purpose of this table, the translation of US\$ into HK\$ is based on the average exchange rate of US\$1.00 to HK\$7.75 for the purpose of illustration only.

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As set out in the table above, the P/B Ratios of the Comparable Companies ranged from approximately 0.09 times to approximately 1.64 times, with a median of approximately 0.50 times. The implied P/B Ratio represented by the Cancellation Price of approximately 0.47 times is close to the median of the P/B Ratios of the Comparable Companies. We also noted that 4 out of the 5 Comparable Companies have a P/B Ratio below 1, implying that it is not uncommon for the shares of Chapter 21 companies to trade at discounts to their net asset values.

4.5 *Privatisation precedents analysis*

We attempted to identify privatisation precedents announced by Chapter 21 companies listed on the Stock Exchange in the 12 months immediately before the date of the Joint Announcement. However, no such precedents were identified. Therefore, we have performed an analysis of privatisation precedents (the “**Privatisation Precedents**”) announced by companies listed on the Stock Exchange in the 12 months immediately before the date of the Joint Announcement, which had successfully delisted from the Stock Exchange. On such basis, we have identified an exhaustive list of 8 Privatisation Precedents.

However, given the differences between the Privatisation Precedents and the Group in terms of business nature, financial performance and financial position, we consider the Privatisation Precedents might not be readily comparable to the Proposal and the Scheme. The Privatisation Precedents just form a general reference.

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The table below illustrates the details of the Privatisation Precedents:

No.	Date of initial announcement	Company	Stock code	Premium of offer/cancellation price over the share price of the relevant company as at the last trading date prior to announcement of privatisation proposals %	Premium/(discount) of offer/cancellation price over/(to) the net asset value per share of the relevant company (Note 1) %
1	28-Apr-17	Belle International Holdings Limited	1880	19.5	77.2
2	29-Mar-17	Goldin Properties Holdings Limited	283	14.2	101.3
3	13-Mar-17	Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.*	8058	31.8	223.8
4	10-Jan-17	Intime International Holdings Limited	1833	42.3	67.4
5	1-Dec-16	Jilin Qifeng Chemical Fiber Co., Ltd*	549	6.5	(0.1)
6	23-Sep-16	Chinalco Mining Corporation International	3668	32.4	239.0
7	26-Jul-16	Peak Sport Products Co., Ltd	1968	10.6	9.7
8	8-Jul-16	Nirvana Asia Ltd	1438	22.4	225.9
			Median	21.0	89.3
			Minimum	6.5	(0.1)
			Maximum	42.3	239.0
		The Company	170	61.5	(53.3)

* For identification purpose only

Note:

1. Based on the latest information available as at the date of the initial announcement of the relevant company.

As illustrated in the table above, (i) the premium of the offer/cancellation price over the share price of the relevant company as at the last trading date prior to announcement of privatisation proposals ranged from approximately 6.5%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to approximately 42.3%, with a median of approximately 21.0%; and (ii) the premium/discount of offer/cancellation price over/to the net asset value per share of the relevant company ranged from a discount of approximately 0.1% to a premium of approximately 239.0%, with a median of premium of approximately 89.3%. The premiums of the Cancellation Price over the closing price on the Last Trading Date are above the range of that of the Privatisation Precedents, whereas the discount of the Cancellation Price to the net asset value per Share is below the range of that of the Privatisation Precedents. Given the differences between the Privatisation Precedents and the Group in terms of business nature, financial performance and financial position, we consider the Privatisation Precedents might not be readily comparable to the Proposal and the Scheme. The Privatisation Precedents just form a general reference.

4.6 Realisation of investment in the Company

Despite the Cancellation Price representing a substantial discount (i.e. 53.3%) to the net asset value per Share, having considered the above factors, in particular, (i) the closing price of the Shares was below the Cancellation Price throughout the Review Period; (ii) during the Pre-Announcement Period, the Share price fluctuated between HK\$3.56 and HK\$4.60 and was far below the Cancellation Price; and (iii) other than disposing of the Scheme Shares in open market at the trading price of which the long term average is shown to be substantially below the Cancellation Price, no other ways are available for the Scheme Shareholders to realise their investment in the Company on better terms, we consider that the Proposal and the Scheme offer the only possible exit for the Scheme Shareholders to realise their investment in the Company at a price far above the Share price during the Pre-Announcement Period. In the absence of the Proposal and the Scheme, it is uncertain that relatively higher price of the Shares during the Post-Announcement Period can be maintained. As such, we are of the view that the Cancellation Price is fair and reasonable.

RECOMMENDATION

Despite the Cancellation Price representing a substantial discount to the net asset value per Share as at 30 June 2017, having considered that

- (i) the Company recorded decreasing total comprehensive income from FY2014 to FY2015, and total comprehensive loss as for FY2016 and the six months ended 30 June 2017;

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- (ii) the prospect of the Group remains uncertain due to that fact that (a) the Shanghai Composite Index and Shenzhen Composite Index have not recovered from the slump between mid of 2015 and early 2016; (b) the share price performances of FSIL and Lukang, the major investments of the Group for FY2016, remained weak as at the Latest Practicable Date; (c) the overall performance of other investments attributable to the Group were unsatisfactory; (d) the Disposal Rules hinder the flexibility of the Company from disposing of its shareholding interest in Lukang for realizing its investment; and (e) the timely conclusion of investment proposals would be hindered by the uncertainty of the time for currency exchange;
- (iii) there is no guarantee that the Company will declare dividend in the future based on its history that no dividend has been declared since 1997 despite (a) the Company recorded profits in the past and (b) it has available cash resources as shown in its published financial statements;
- (iv) the Cancellation Price of HK\$6.8 per Scheme Share represents a premium of approximately 61.5% over the closing price of HK\$4.21 per Share as quoted on the Stock Exchange on the Last Trading Date and the closing price of the Shares was below the Cancellation Price throughout the Review Period. Given that the Share price (a) was fluctuated between HK\$3.56 and HK\$4.60 during the Pre-Announcement Period; and (b) only jumped to high level between HK\$6.42 and HK\$6.56 during the Post-Announcement Period, it is uncertain whether the Share price would remain at such level if the Proposal and the Scheme lapse;
- (v) given the generally low trading volume of the Shares during the Review Period, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Scheme Shareholders to dispose of a significant number of the Shares in the open market within a short period of time without depressing the Share price;
- (vi) it is uncertain that the relatively higher price and trading volume of the Shares during the Post-Announcement Period would be sustainable and maintained in the absence of the Proposal and the Scheme;
- (vii) other than disposing of the Scheme Shares in open market at the trading price of which the long term average is shown to be substantially below the Cancellation Price, no other ways are available for the Scheme Shareholders to realise their investment in the Company on better terms;
- (viii) the discount of the Cancellation Price to the net asset value per Share of approximately 53.3% is lower than that as at 31 December 2015 and 2016, and 30 June 2017 respectively and it is uncertain whether the relatively much smaller discount (i.e. 53.3%) of the Share price to the net asset value per Share could be realised in the near future by the Shareholders if the Proposal and the Scheme lapse; and

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- (ix) the implied P/B Ratio represented by the Cancellation Price is close to the median of the P/B Ratios of the Comparable Companies and it is not uncommon for the shares of Chapter 21 companies traded at discount to its net asset value,

we consider the terms of the Proposal and the Scheme (including the Cancellation Price) to be fair and reasonable so far as the Scheme Shareholders are concerned. Accordingly, we recommend the Scheme Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

Yours faithfully,
For and on behalf of
Nuada Limited

Kim Chan
Executive Director

Kevin Wong
Vice President

Mr. Kim Chan is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 16 years of experience in corporate finance industry.

Mr. Kevin Wong is a person licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and is a responsible officer of Nuada Limited who has over 12 years of experience in corporate finance industry.

EXPLANATORY STATEMENT

This Explanatory Statement constitutes the statement required under Section 671 of the Companies Ordinance.

INTRODUCTION

On 3 July 2017, the Offeror and the Company jointly announced that on 26 June 2017, the Offeror approached the Board about the Proposal, which, if implemented, together with the transfer of Shares from Mr. Lo Yuen Yat and Mr. Yeung Wai Kin to the Offeror immediately after the Scheme becomes effective, will result in the Company becoming wholly-owned by the Offeror and the withdrawal of listing of the Shares from the Stock Exchange. The Offeror also confirmed in the Joint Announcement that there would be no revision to the Cancellation Price and that the Offeror did not reserve a right to do so.

As at the Latest Practicable Date, the Offeror and parties acting in concert with it owned or controlled 58,267,813 Shares, representing approximately 54.22% of the issued share capital of the Company. The Proposal, if proceeded with, will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and, specifically, to provide the Scheme Shareholders with additional information in relation to the Scheme.

THE PROPOSAL

Subject to the Conditions being fulfilled or waived, as applicable, the proposed privatisation of the Company will be implemented by way of the Scheme between the Company and the Scheme Shareholders.

THE SCHEME

The Scheme involves a reduction of the issued share capital of the Company by the cancellation of the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the creation of such number of new Shares as is equal to the number of Scheme Shares cancelled. The credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued, credited as fully paid, to the Offeror. The Scheme provides

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that, in consideration of the cancellation of the Scheme Shares, the Scheme Shareholders whose names appear on the register of members of the Company on the Record Date, will be entitled to receive from the Offeror:

HK\$6.8 in cash for every Scheme Share cancelled

The Offeror has advised that the Cancellation Price will not be increased, and the Offeror does not reserve the right to so increase it.

The Cancellation Price of HK\$6.8 per Scheme Share represents:

- (i) a premium of approximately 61.5% over the closing price of HK\$4.21 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a premium of approximately 76.6% over the average closing price of approximately HK\$3.85 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- (iii) a premium of approximately 77.1% over the average closing price of approximately HK\$3.84 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- (iv) a premium of approximately 76.6% over the average closing price of approximately HK\$3.85 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- (v) a premium of approximately 73.9% over the average closing price of approximately HK\$3.91 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- (vi) a discount of approximately 53.8% to the audited consolidated net asset value per Share of approximately US\$1.9 (equivalent to approximately HK\$14.725) as at 31 December 2016; and
- (vii) a premium of approximately 4.9% over the closing price of HK\$6.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Cancellation Price has been determined after taking into account the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

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TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$6.8 per Scheme Share and 49,193,611 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$334,516,555. The Company had no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue as at the Latest Practicable Date.

The Offeror intends to finance the cash required for the Proposal through (i) the Facility; and/or (ii) its own resources. GF Capital, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for satisfying its obligations in respect of the full implementation of the Proposal.

CONDITIONS OF THE PROPOSAL AND THE SCHEME

Pursuant to section 674(2) of the Companies Ordinance, for a scheme of arrangement that involves a takeover offer to be approved, the votes cast against the scheme of arrangement must not exceed 10% of the voting rights attached to all CO Disinterested Shares and the scheme of arrangement must be approved by shareholders representing at least 75% of the voting rights of the shareholders present and voting, in person or by proxy, at the court meeting, and to similar voting threshold requirements under the Takeovers Code.

The Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme at the Court Meeting (by way of a poll) by Scheme Shareholders representing at least 75% of the votes attaching to the Scheme Shares that are cast, in person or by proxy, at the Court Meeting, and the number of votes cast (by way of poll) against the Scheme at the Court Meeting not exceeding 10% of the total voting rights attaching to all CO Disinterested Shares, provided that:
 - (i) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the TC Disinterested Shares held by the Shareholders of the TC Disinterested Shares that are voted either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) by Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all TC Disinterested Shares held by all the Shareholders of the TC Disinterested Shares;

EXPLANATORY STATEMENT

- (b) the passing of a special resolution(s) by a majority of not less than 75% of the votes cast by the Shareholders present and voting in person or by proxy at the EGM (and otherwise in accordance with the procedural requirements of section 564 of the Companies Ordinance) to approve and give effect to the Scheme, including the approval of the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and the issue to the Offeror of such number of new Shares as is equal to the number of the Scheme Shares cancelled;
- (c) the sanction of the Scheme (with or without modification) and the confirmation of the reduction of the issued share capital of the Company involved in the Scheme by the High Court and the registration of a copy of the order of the High Court by the Registrar of Companies under Part 2 of the Companies Ordinance;
- (d) the compliance with the procedural requirements of sections 230 and 231 and sections 673 and 674 of the Companies Ordinance in relation to the reduction of the issued share capital of the Company and the Scheme, respectively;
- (e) all necessary authorisations, consents and approvals (including approval in-principle) of any Relevant Authority in relation to the Proposal (including its implementation) having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong and other relevant jurisdictions;
- (f) all necessary third party consents in relation to the Proposal required pursuant to any agreement to which any member of the Group is a party having been obtained or waived by the relevant party(ies) and remaining in full force and effect without modification;
- (g) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Proposal void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Proposal;
- (h) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the Relevant Authorities which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each case up to and at the time when the Scheme becomes effective;

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- (i) there being no provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject, which as a consequence of the Proposal or the Scheme would result in (in each case to an extent which is material in the context of the Group as a whole and in the context of the Proposal):
- (i) any monies borrowed by or any other indebtedness (actual or contingent) of any member of the Group being or becoming repayable (or capable of being declared repayable) immediately or earlier than their or its stated maturity date or repayment date;
 - (ii) any such agreement, arrangement, licence, permit or instrument (or the rights, liabilities, obligations or interests of any member of the Group thereunder) being terminated or adversely modified (or any material obligation or liability arising or any material action being taken thereunder); or
 - (iii) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any member of the Group or any such security (whenever arising) becoming enforceable, and no event having occurred which, under any provision of any agreement, arrangement, licence, permit or other instrument to which any member of the Group is a party or by which any such member or all or any of its assets may be bound, entitled or subject, would result in any of the events or circumstances as are referred to in sub-paragraphs (i) to (iii) of this paragraph (i) (in each case to an extent which is material in the context of the Group as a whole and in the context of the Proposal);
- (j) no event having occurred which would make the Proposal, the cancellation of the Scheme Shares or the issue of the new Shares in the Scheme void, unenforceable or illegal or which would prohibit the implementation of the Proposal or impose any additional material conditions or obligations with respect to the Proposal or any part thereof, on the cancellation of the Scheme Shares or the issue of the new Shares in the Scheme; and
- (k) since the date of the Joint Announcement:
- (i) there having been no adverse change in the business, assets, financial or trading, positions, profits or prospects of any member of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal); and

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- (ii) there not having been instituted or remaining outstanding any litigation, arbitration, proceedings, prosecution or other legal proceedings to which any member of the Group is a party (whether as plaintiff, defendant or otherwise) and no such proceedings having been threatened in writing against any such member (and no investigation by any government or quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member having been threatened in writing, announced, instituted or remaining outstanding by, against or in respect of any such member), in each case which is material and adverse in the context of the Group taken as a whole or in the context of the Proposal.

Condition (a) to the Scheme takes into account the approval requirements under Rule 2.10 of the Takeovers Code, in addition to the statutory requirements under Section 673 of the Companies Ordinance. Under Section 673 of the Companies Ordinance, the Scheme will, subject to the sanction of the High Court, be binding on the Company and all the Scheme Shareholders if the Scheme is approved by at least 75% of the votes attaching to the Scheme Shares held by Scheme Shareholders that are cast either in person or by proxy at the Court Meeting and the number of votes cast against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all CO Disinterested Shares. Based on the 49,655,027 CO Disinterested Shares as at the Latest Practicable Date, 10% of such CO Disinterested Shares is 4,965,502 CO Disinterested Shares after rounding. Under Rule 2.10 of the Takeovers Code, however, the Scheme has to be approved by at least 75% of the votes attaching to the Shares held by the Shareholders of the TC Disinterested Shares that are cast either in person or by proxy at the Court Meeting; and the number of votes cast against the resolution to approve the Scheme at the Court Meeting must not be more than 10% of the votes attaching to all of the TC Disinterested Shares held by such Shareholders. Based on 49,193,611 Shares held by the Shareholders of the TC Disinterested Shares as at the Latest Practicable Date, 10% of such TC Disinterested Shares is 4,919,361 TC Disinterested Shares after rounding.

With reference to Conditions (e), (f) and (h), the Company and the Offeror are not aware of any Authorisations required. With reference to Condition (i), the Company and the Offeror are not aware of any such provision of any agreement, arrangement, licence, permit or other instrument.

The Offeror reserves the right to waive all or any of the conditions (except for the conditions referred to in paragraphs (a) to (e), (g) and (j) above) in whole or in part. The Company does not have the right to waive any of the conditions. All of the above conditions will have to be fulfilled or waived, as applicable, otherwise the Scheme will lapse. If the Scheme is withdrawn, not approved or sanctioned by the High Court or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn. In accordance with

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Note 2 to Rule 30.1 of the Takeovers Code, the Offeror will not be permitted to invoke all or any of the conditions of the Proposal so as to cause the Scheme to lapse unless the circumstances which give rise to the right to invoke the condition are of material significance to the Offeror in the context of the Proposal.

None of the Conditions had been satisfied (or waived) as at the Latest Practicable Date.

As of the Latest Practicable Date, there were no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

If the Proposal is withdrawn or lapses, in accordance with Rule 31.1 of the Takeovers Code, except with the consent of the Executive, neither the Offeror nor any person who acted in concert with it in the course of the Proposal, nor any person who is subsequently acting in concert with any of them, may within 12 months from the date on which the Proposal is withdrawn or lapses, either announce an offer or possible offer for the Company or acquire any voting rights of the Company if the Offeror or persons acting in concert with it would thereby become obliged under Rule 26 of the Takeovers Code to make an offer.

If approved, the Scheme will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting.

Assuming that the above conditions are fulfilled or, as applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be Monday, 6 November 2017, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:00 a.m. on Tuesday, 7 November 2017 pursuant to Rule 6.15(2) of the Listing Rules. An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. Further announcements will be made regarding the Proposal in accordance with the requirements of the Takeovers Code and the Listing Rules, including in relation to the result of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date, the date of withdrawal of the listing of the Shares from the Stock Exchange and if the Scheme is withdrawn or lapses.

Warning:

Shareholders and potential investors should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when

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dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant, or other professional advisers.

SHAREHOLDING STRUCTURE OF THE COMPANY AND EFFECT OF THE PROPOSAL AND THE SCHEME

As at the Latest Practicable Date, the issued share capital of the Company was 107,461,424 Shares.

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme becoming effective (together with the transfer of Shares from Mr. Lo Yuen Yat and Mr. Yeung Wai Kin to the Offeror immediately after the Scheme becomes effective) and assuming no other new Shares will be issued prior thereto:

Shareholders	As at the Latest Practicable Date		Upon the Scheme becoming effective	
	<i>Approximate %</i>		<i>Approximate %</i>	
	<i>Number of shares</i>	<i>of the issued share capital</i>	<i>Number of shares</i>	<i>of the issued share capital</i>
<i>The Offeror</i>	57,806,397	53.79	107,461,424	100.00
<i>Parties acting in concert with the Offeror</i>				
Lo Yuen Yat ¹	315,000	0.29	—	—
Mr. Yeung Wai Kin ²	146,416	0.14	—	—
<i>Aggregate number of Shares held by the Offeror and parties acting concert with it</i>				
	58,267,813	54.22	—	—
<i>Scheme Shareholders</i>				
Team Assets Group Limited ³	11,305,000	10.52	—	—
Other Scheme Shareholders	37,888,611	35.26	—	—
<i>Total issued share capital</i>	107,461,424	100.00	107,461,424	100.00

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Note 1: Mr. Lo Yuen Yat, the chairman and an executive Director, is deemed to be interested in 57,806,397 shares in the Company held by the Offeror. As at the Latest Practicable Date, the Offeror was owned as to 40% by Mr. Lo Yuen Yat, as to 30% by his brother Mr. Lao Kaisheng, and as to 30% by his sister Ms. Lao Jiangsheng.

Note 2: Mr. Yeung Wai Kin is presumed to be acting in concert with all Directors, including Mr. Lo Yuen Yat under class (6) of the definition of “acting in concert” under the Takeovers Code and is therefore regarded as having an interest in the Proposal.

Note 3: Team Assets Group Limited is wholly-owned by Mr. Li Zhi Yun. Therefore, Mr. Li Zhi Yun has a deemed interest in the issued share capital of the Company through his interest in Team Assets Group Limited. Mr. Li Zhi Yun is an independent third party not connected with the Company, Mr. Lo Yuen Yat and the Offeror and is not acting in concert with each of them. There is no relationship (business, financial, personal or otherwise) between Mr. Li Zhi Yun and the Offeror or Mr. Lo Yuen Yat.

As at the Latest Practicable Date, save for Mr. Lo Yuen Yat and Mr. Yeung Wai Kin, the Directors did not hold any Shares.

Assuming that no new Shares will be issued after the Latest Practicable Date up to the Record Date, the Offeror will immediately after the Scheme becomes effective be interested in 107,000,008 Shares, representing 99.6% of the total issued Shares.

As at the Latest Practicable Date, the Scheme Shareholders were interested in an aggregate of 49,193,611 Shares, representing approximately 45.78% of the issued Shares.

As at the Latest Practicable Date, the Offeror and parties acting in concert with it owned or controlled 58,267,813 Shares, representing approximately 54.22% of the issued Shares. The Shares beneficially owned by the Offeror will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting. The Shares beneficially owned by parties acting in concert with the Offeror in respect of the Company, including Mr. Lo Yuen Yat and Mr. Yeung Wai Kin (who is presumed to be acting in concert with all Directors, including Mr. Lo Yuen Yat under class (6) of the definition of “acting in concert” under the Takeovers Code), will not form part of the Scheme Shares, will not be voted at the Court Meeting and will not be cancelled upon the Scheme becoming effective, but will be transferred to the Offeror at the Cancellation Price immediately after the Scheme becomes effective.

As at the Latest Practicable Date, the Company did not have any outstanding options, warrants, derivatives or securities convertible into Shares in issue.

If the Scheme is approved at the Court Meeting in accordance with the requirements of Section 673 of the Companies Ordinance and Rule 2.10 of the Takeovers Code and is sanctioned by the High Court and the other Conditions are either fulfilled or (to the extent permitted) waived, then the Scheme will become binding on the Company and all the Scheme Shareholders.

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If the Scheme becomes effective:

- (i) all the Scheme Shares held by the Scheme Shareholders on the Effective Date will be cancelled in exchange for the payment to each Scheme Shareholder of the Cancellation Price in cash for each Scheme Share by the Offeror, whereupon the issued share capital of the Company will be reduced from 107,461,424 Shares to 58,267,813 Shares (assuming that there are no changes to its shareholding structure on or prior to the Effective Date) and all share certificates representing holdings of those Scheme Shares cancelled shall cease to have effect as evidence of title;
- (ii) the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the creation of such number of the new Shares as is equal to the number of Scheme Shares cancelled;
- (iii) on the Effective Date, the credit arising in the Company's books of account as a result of the capital reduction will be applied in paying up the new Shares so allotted and issued, credited as fully paid, to the Offeror;
- (iv) the Shares beneficially owned by Mr. Lo Yuen Yat and Mr. Yeung Wai Kin will be transferred to the Offeror at the Cancellation Price; and
- (v) the Offeror will pay the Cancellation Consideration of HK\$6.8 per Scheme Share to the Scheme Shareholders for each Scheme Share held by them on the Record Date.

Pursuant to Rule 2.3 of the Takeovers Code, if the Proposal is either not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the Independent Financial Adviser, all expenses incurred by the Company in connection with the Proposal shall be borne by the Offeror if the Scheme is not approved. Given that the Proposal is recommended by the Independent Board Committee and is recommended as fair and reasonable by the Independent Financial Adviser, the Company has agreed that it will bear its own expenses incurred in connection with the Scheme, irrespective of whether the Scheme will become effective.

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REASONS FOR AND BENEFITS OF THE PROPOSAL, AND THE OFFEROR'S INTENTION IN RELATION TO THE GROUP

Since its listing on the Stock Exchange and particularly over the recent two years, the Company's share price performance has been less satisfactory than expected, and specifically, the share price of the Company has for many years represented a deep discount to the net asset value per share of the Company (As at 31 May 2017, the unaudited consolidated net asset value per share was US\$1.8693 whilst its closing price on the Last Trading Date was HK\$4.21, equivalent to US\$0.543. On the Latest Practicable Date, it was HK\$6.48).

This chronic discount is not in the best interest of Shareholders' value and limits the ability of the Group to attract investors' interests and enhance its market image. Furthermore, the liquidity of the Shares has also been at a low level over a long period of time. The average daily trading volume of the Shares for the 12 months up to and including the Last Trading Date was approximately 44,120 Shares per day, representing only approximately 0.09% of the Scheme Shares as at the Last Trading Date. There has been no material increase in liquidity since then and up to the Latest Practicable Date. The low trading liquidity of the Shares make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and to dispose of large numbers of Shares.

In order to seek to improve the Share price and liquidity of the Shares, in recent years, the Company has been actively formulating new strategic initiatives by placing high priority on the medical service and health care industry which the Directors believe will grow explosively in future years as a result of China's demographic changes, and the investment team has also been actively searching for new investment opportunities. However, given the fact that the Company is a public company listed on the Stock Exchange under Chapter 21 of the Listing Rules, it is subject to significant restrictions on its investment activities, such as (i) the prohibition of taking ownership or control of more than 30% of the voting rights in any single invested company; and (ii) the limit on the value of single investments to not more than 20% of its net asset value at the time of such investment, particularly given the relatively low net asset base of the Company, both of which may cause the Company to miss out on a number of attractive investment opportunities that would strategically benefit the business and financial growth of the Company on a long term basis. As such, the Offeror considers that the Proposal is in line with the long-term interest and strategic direction of the Company.

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The Offeror intends to continue the existing business of the Company upon successful implementation of the Scheme of Arrangement and the Proposal. The Offeror has no intention to make any major changes to the existing operations and business, or to discontinue the employment of the employees of the Group after implementation of the Scheme of Arrangement and the Proposal. However, the Offeror will continue to assess business opportunities as they arise.

The Offeror accordingly considers that the Scheme provides the Scheme Shareholders with a good opportunity to realize their investments in the Company:

- Premium valuation: The Cancellation Price of HK\$6.8 per Scheme Share represents a premium of approximately 61.5% over the closing price per Share on the Last Trading Date.
- Certain and immediate premium over recent trading prices despite low liquidity: The Scheme provides an opportunity for Scheme Shareholders, if they so wish, to dispose of their Shares expeditiously and receive cash at a price above recent market prices.

IF THE SCHEME DOES NOT BECOME EFFECTIVE

If the Scheme is withdrawn or not approved or sanctioned by the High Court or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn, and there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive. The Offeror has no intention of disposing any of its approximately 53.79% interest in the Company if the Scheme does not become effective. Considering that the Offeror was interested in approximately 53.79% of the issued Shares of the Company as at the Latest Practicable Date, the Directors are of the belief that it is unlikely the Scheme Shareholders will receive any other offer from a third party to acquire their Shares if the Scheme does not become effective.

EXPLANATORY STATEMENT

INFORMATION ABOUT THE OFFEROR

The Offeror is a company incorporated in Hong Kong owned as to 40% by Mr. Lo Yuen Yat, the chairman and an executive Director, as to 30% by his brother Mr. Lao Kaisheng, and as to 30% by his sister Ms. Lao Jiangsheng. Mr. Lo Yuen Yat 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 as well as the chairman and managing director of First Shanghai Investments Limited which is an associated company of the Company. Mr. Lao Kaisheng and Ms. Lao Jiangsheng are currently in retirement and neither of them holds any position in the Offeror.

INFORMATION ABOUT THE COMPANY

The Company is incorporated in Hong Kong with limited liability and the Shares have been listed on the Stock Exchange since 1992. The Company is an investment company listed under Chapter 21 of the Listing Rules and its subsidiaries are principally engaged in investment activities.

Set out below is a summary of certain audited financial information of the continuing operations of the Group for the financial years ended 31 December 2015 and 31 December 2016 extracted from the Company's annual reports:

	Year ended 31 December 2015 US\$	Year ended 31 December 2016 US\$
Income	810,309	846,867
Operating profit	11,598,071	12,284,928
Profit before income tax	11,075,584	12,364,320
Profit for the year	11,115,954	12,364,320
Consolidated net asset value	<u>224.83 million</u>	<u>204.57 million</u>

The attention of the Scheme Shareholders is drawn to Appendix I to this Scheme Document which sets out financial information relating to the Group.

EXPLANATORY STATEMENT

WITHDRAWAL OF THE LISTING OF THE SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will make an application for the listing of the Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15 of the Listing Rules, with effect from the date on which the Scheme becomes effective.

The Company does not intend to retain its listing on the Stock Exchange. Conditional upon the approval of the Scheme at the Court Meeting and the passing of the special resolution to give effect to the Scheme at the EGM, the listing of the Shares from the Stock Exchange will be withdrawn in accordance with Rule 6.15(2) of the Listing Rules as soon as practicable. If the Scheme becomes effective on Monday, 6 November 2017, the listing of the Shares on the Hong Kong Stock Exchange is expected to be withdrawn at 9:00 a.m. on Tuesday, 7 November 2017.

Subject to the requirements of the Takeovers Code, the Scheme will lapse if any of the conditions described in the section headed “Conditions of the Proposal and the Scheme” has not been fulfilled or waived, as applicable. The Scheme Shareholders will be notified by way of an announcement of the dates of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

If the Scheme is withdrawn or not approved or sanctioned by the High Court or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

ENTITLEMENTS TO AND PAYMENT OF CANCELLATION CONSIDERATION

In order to qualify to vote at the Court Meeting and the EGM, all transferees of the Shares must lodge the duly completed transfer forms, together with the relevant share certificate, with the Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017.

Upon the Scheme becoming effective, the Cancellation Consideration will be paid to the Scheme Shareholders whose names appear on the register of members of the Company on the Record Date as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) of the Effective Date. On the basis that the Scheme becomes effective on Monday, 6 November 2017, the cheques for the payment of the Cancellation Consideration will be despatched on or before Wednesday, 15 November 2017, in compliance with Rule 20.1 of the Takeovers Code.

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The cheques for the payment of the Cancellation Consideration will be sent to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first on the register of members in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and none of the Offeror, the Company and any of their respective officers or agents will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and shall place all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror.

Before the expiry of six years from the Effective Date, the Offeror shall make payments from the deposit or custodian account of the sums, together with interest thereon, to persons who satisfy the Company that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, the register of members of the Company will be updated accordingly to reflect the cancellation of all the Scheme Shares and all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on Monday, 6 November 2017.

Settlement of the Cancellation Consideration to which any Scheme Shareholder is entitled will be implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Scheme Shareholder.

OVERSEAS SHAREHOLDERS

This Scheme Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

EXPLANATORY STATEMENT

The making of the Proposal to those Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where such Scheme Shareholders are located. Such Scheme Shareholders should inform themselves about and observe any applicable legal and regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Scheme Shareholders wishing to accept the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

TAXATION AND INDEPENDENT ADVICE

As the cancellation of the Scheme Shares upon the Scheme becoming effective does not involve the sale and purchase of any Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong, in this respect.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Consideration will make them liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of the Company, the Offeror, GF Capital, the Independent Financial Adviser, their respective officers or advisers and any other person involved in the Proposal accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal.

GENERAL

The Offeror confirms that, as at the Latest Practicable Date:

- (i) save as disclosed in the section headed “Shareholding structure of the Company and effect of the Proposal and the Scheme” above, none of the Offeror or each of the parties acting in concert with it owns or has control or direction over any shares, rights over shares, convertible securities, warrants or options of the Company;
- (ii) none of the Offeror or each of the parties acting in concert with it had entered into any arrangements or contracts in relation to any outstanding derivative in respect of the securities of the Company;

EXPLANATORY STATEMENT

- (iii) none of the Offeror or each of the parties acting in concert with it had received any irrevocable commitment to vote for or against the Proposal and the Scheme. The Offeror and parties acting in concert with it have indicated that those Shares held by them will be voted in favour of the special resolution to be proposed at the EGM;
- (iv) save for the Proposal and the Scheme, there were no arrangements (whether by way of option, indemnity or otherwise) relating to the relevant securities as described in Note 8 to Rule 22 of the Takeovers Code between the Offeror or any parties acting in concert with the Offeror and any other person in relation to the shares of the Offeror or the Company which might be material to the Proposal and the Scheme;
- (v) save for the Conditions set out in the section headed “Conditions to the Proposal and the Scheme” above, there was no agreement or arrangement to which the Offeror or each of the parties acting in concert with it is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Proposal;
- (vi) none of the Offeror or each of the parties acting in concert with it had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; and
- (vii) none of the Offeror or each of the parties acting in concert with it had any dealings in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the 6-month period preceding the Joint Announcement and up to the Latest Practicable Date.

Associates of the Company or the Offeror (as defined in the Takeovers Code, including shareholders holding 5% or more of the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or the Offeror) are hereby reminded to disclose their dealings in any securities of the Company under Rule 22 of the Takeovers Code.

EXPLANATORY STATEMENT

COURT MEETING AND THE EGM

The High Court has directed that the Court Meeting be convened for the purpose of considering and, if thought fit, approving the Scheme (with or without modification). Only the Scheme Shareholders will be entitled to attend and vote at the Court Meeting under Rule 2.10 of the Takeovers Code. The Shares beneficially owned by the Offeror will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting. The Shares beneficially owned by parties acting in concert with the Offeror in respect of the Company, including Mr. Lo Yuen Yat and Mr. Yeung Wai Kin, will not form part of the Scheme Shares, will not be voted at the Court Meeting. As at the Latest Practicable Date, save for Mr. Lo Yuen Yat and Mr. Yeung Wai Kin, the Directors did not hold any Shares.

Immediately following the conclusion of the Court Meeting, the EGM will be held for the purpose of considering and, if thought fit, passing the special resolution to give effect to the Scheme, including the reduction of the issued share capital of the Company. All Shareholders will be entitled to attend and vote in respect of the special resolution at the EGM. The Offeror has indicated that, if the Scheme is approved at the Court Meeting, the Offeror will vote in favour of the special resolution to be proposed at the EGM to approve and give effect to the Scheme, including the approval of the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of new Shares as is equal to the number of the Scheme Shares cancelled. Both Mr. Lo Yuen Yat and Mr. Yeung Wai Kin have indicated that if the Scheme is approved at the Court Meeting, each of them intends to, in respect of each of their own beneficial shareholdings, vote in favour of the special resolution to be proposed at the EGM to approve and give effect to the Scheme.

Notice of the Court Meeting is set out on pages CM-1 to CM-3 of this Scheme Document. The Court Meeting will be held on Wednesday, 25 October 2017 at the time and place specified in the notice.

Notice of the EGM is set out on pages EGM-1 to EGM-3 of this Scheme Document. The EGM will be held at the same place and on the same date at 10:30 a.m. or, if later, immediately after the conclusion or adjournment of the Court Meeting.

EXPLANATORY STATEMENT

ACTIONS TO BE TAKEN

Actions to be taken by Shareholders

For the purpose of determining the entitlements of holders of Scheme Shares to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 18 October 2017 to Wednesday, 25 October 2017 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners. Subsequent purchasers of Scheme Shares will need to obtain a proxy form from the transferor.

Whether or not you are able to attend the Court Meeting or the EGM or any adjournment thereof in person, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and, if you are a Shareholder, you are strongly encouraged to complete and sign the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by the following respective times. In the case of the pink form of proxy in respect of the Court Meeting, it should be lodged by 10:00 a.m. on Monday, 23 October 2017 or it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for use at the EGM must be lodged by 10:30 a.m. on Monday, 23 October 2017.

The completion and return of a form of proxy for each of the Court Meeting or the EGM (as the case may be) will not preclude you from attending and voting in person at the Court Meeting or the EGM (as the case may be) or any adjournment thereof. In such event, the returned form of proxy shall be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the EGM, you will still be bound by the outcome of such Court Meeting and/or EGM. You are therefore strongly urged to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

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Voting at the Court Meeting and the EGM will be taken by poll as required under the Listing Rules and the Takeovers Code.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM. Further announcements will be made regarding the Proposal in accordance with the requirements of the Takeovers Code and the Listing Rules, including in relation to the result of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date, the date of withdrawal of the listing of the Shares from the Hong Kong Stock Exchange and if the Scheme is withdrawn or lapses.

Actions to be taken by Beneficial Owners whose Shares are held by a Registered Owner or deposited in CCASS

The Company is not permitted under its articles of association to recognise any person as holding any Shares through any trust except as provided therein as required by law or ordered by a court of competent jurisdiction. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide the Registered Owner with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with another CCASS Participant, regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such person with sufficient time to provide HKSCC Nominees Limited with instructions or make arrangements with HKSCC Nominees Limited in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

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HKSCC Nominees Limited may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS).

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote in person at the Court Meeting (if you are a Scheme Shareholder) and the EGM (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay a withdrawal fee to CCASS per board lot withdrawn, a registration fee, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

FURTHER INFORMATION

Further information in relation to the Proposal is set out in the appendices in this Scheme Document, all of which form part of this Explanatory Statement.

Shareholders and Scheme Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, GF Capital, the Independent Financial Adviser nor any of their respective directors, officers, employees, agents, affiliates or any other persons involved in the Proposal has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

LANGUAGE

In case of any inconsistency, the English language text of this document and the accompanying forms of proxy shall prevail over the Chinese language text.

1. FINANCIAL SUMMARY

The following is a summary of the financial information of the Group for each of the three years ended 31 December 2014, 2015, 2016 and the half year ended 30 June 2017 extracted from the Company's annual reports for the years ended 31 December 2015, 2016, and the Company's interim report for the six months ended 30 June 2017.

PricewaterhouseCoopers, the auditor of the Company, did not issue any qualified opinion on the audited consolidated financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016.

There was no exceptional item because of size, nature or incidence that was required to be disclosed in the financial statements of the Group for the 3 years ended 31 December 2014, 2015, 2016 and the half year ended 30 June 2017.

Consolidated Income Statement

	For the six months ended 30 June 2017 (unaudited) US\$	For the year ended 31 December		
		2016 (audited) US\$	2015 (audited) US\$	2014 (audited) US\$
Income	483,475	846,867	810,309	862,415
Other gains — net	6,664,467	15,703,807	16,585,512	10,234,676
Administrative expenses	1,478,909	(4,265,746)	(5,797,750)	(2,348,353)
Operating profit	5,669,213	12,284,928	11,598,071	8,748,738
Share of results of associates	(453,470)	79,392	74,756	1,902,131
Provision for impairment loss of an associate	—	—	(597,243)	—
Profit before income tax	5,215,743	12,364,320	11,075,584	10,650,869
Income tax credit/(expense)	(7,367)	—	40,370	(925,152)
Profit for the year attributable to:				
— equity holders of the Company	5,208,376	12,364,320	11,115,954	9,725,717
— non-controlling interests	—	—	—	—

	For the six months ended		For the year ended 31 December	
	30 June	2016	2015	2014
	2017	(audited)	(audited)	(audited)
	(unaudited)	US\$	US\$	US\$
Earnings per share attributable to the equity holders of the Company during the year				
— Basic	0.0485	0.158	0.145	0.127
— Diluted	0.0485	0.158	0.145	0.127
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Dividends				
Interim dividend	—	—	—	—
Final dividend	—	—	—	—
Dividends per share				
Interim dividend	—	—	—	—
Final dividend	—	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

2. FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2016

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 December 2016 extracted from the Company's annual report for the year ended 31 December 2016. Capitalised terms used in this section shall have the same meanings as those defined in such annual report.

Consolidated Income Statement

For the year ended 31 December 2016

	<i>Note</i>	2016 <i>US\$</i>	2015 <i>US\$</i>
Income	<i>6</i>	846,867	810,309
Other gains — net	<i>7</i>	15,703,807	16,585,512
Administrative expenses	<i>8</i>	<u>(4,265,746)</u>	<u>(5,797,750)</u>
Operating profit		12,284,928	11,598,071
Share of results of associates		79,392	74,756
Provision for impairment loss of an associate		<u>—</u>	<u>(597,243)</u>
Profit before income tax		12,364,320	11,075,584
Income tax credit	<i>10</i>	<u>—</u>	<u>40,370</u>
Profit for the year attributable to equity holders of the Company		<u>12,364,320</u>	<u>11,115,954</u>
Earnings per share attributable to the equity holders of the Company during the year	<i>12</i>		
— Basic		0.158	0.145
— Diluted		<u>0.158</u>	<u>0.145</u>

Consolidated Statement of Comprehensive Income*For the year ended 31 December 2016*

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Profit for the year	<u>12,364,320</u>	<u>11,115,954</u>
Other comprehensive (loss)/income:		
<i>Items that have been reclassified or may be subsequently reclassified to profit or loss</i>		
Share of post-acquisition reserves of associates	(2,380,937)	(6,536,011)
Release of post-acquisition reserve upon deemed disposal of an associate	(36,162)	(115,712)
Release of exchange translation reserve upon disposal of an associate	(4,528)	—
Exchange differences arising on translation of subsidiaries and associates	(1,180,091)	(1,042,416)
Release of investment revaluation reserve upon disposal of an available-for-sale financial asset	(15,619,240)	(13,309,997)
Fair value (losses)/gains of available-for-sale financial assets	<u>(28,729,292)</u>	<u>38,095,055</u>
Other comprehensive (loss)/income for the year, net of tax	<u>(47,950,250)</u>	<u>17,090,919</u>
Total comprehensive (loss)/income for the year attributable to equity holders of the Company	<u><u>(35,585,930)</u></u>	<u><u>28,206,873</u></u>

Consolidated Balance Sheet*As at 31 December 2016*

	<i>Note</i>	2016 <i>US\$</i>	2015 <i>US\$</i>
ASSETS			
Non-current assets			
Interests in associates	<i>14</i>	77,582,945	78,005,948
Available-for-sale financial assets	<i>15</i>	56,033,646	102,190,222
Total non-current assets		<u>133,616,591</u>	<u>180,196,170</u>
Current assets			
Loan receivable	<i>16</i>	—	—
Other receivables, prepayments and deposits	<i>17</i>	224,245	367,068
Amount due from a related company	<i>26(c)</i>	3,558	—
Financial assets at fair value through profit or loss	<i>18</i>	6,168,912	5,055,595
Tax recoverable		51,937	—
Cash and cash equivalents	<i>19</i>	68,252,321	42,784,510
Total current assets		<u>74,700,973</u>	<u>48,207,173</u>
Total assets		<u><u>208,317,564</u></u>	<u><u>228,403,343</u></u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	<i>20</i>	92,109,301	76,783,698
Reserves	<i>21</i>	112,464,803	148,050,733
Total equity		<u>204,574,104</u>	<u>224,834,431</u>
LIABILITIES			
Current liabilities			
Other payables and accrued expenses	<i>23</i>	3,376,708	764,505
Amounts due to related companies	<i>26(c)</i>	349,989	2,787,644
Current income tax liabilities		16,763	16,763
Total current liabilities		<u>3,743,460</u>	<u>3,568,912</u>
Total liabilities		<u>3,743,460</u>	<u>3,568,912</u>
Total equity and liabilities		<u><u>208,317,564</u></u>	<u><u>228,403,343</u></u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2016*

	Share capital US\$	Capital reserve US\$	Exchange translation reserve US\$	Share-based compensation reserve US\$	Investment revaluation reserve US\$	Retained earnings US\$	Total US\$
Balance as at 1 January 2016	76,783,698	8,977,992	1,742,702	1,506,549	77,197,368	58,626,122	224,834,431
Comprehensive income							
Profit for the year attributable to equity holders of the Company	—	—	—	—	—	12,364,320	12,364,320
Other comprehensive loss							
Share of post-acquisition reserves of associates	—	(2,380,937)	—	—	—	—	(2,380,937)
Release of post-acquisition reserve upon deemed disposal of an associate	—	(36,162)	—	—	—	—	(36,162)
Release of exchange translation reserve upon disposal of an associate	—	—	(4,528)	—	—	—	(4,528)
Exchange differences arising on translation of subsidiaries and associates	—	—	(1,180,091)	—	—	—	(1,180,091)
Release of investment revaluation reserve upon disposal of an available-for-sale financial asset	—	—	—	—	(15,619,240)	—	(15,619,240)
Fair value losses of available-for-sale financial assets	—	—	—	—	(28,729,292)	—	(28,729,292)
Total other comprehensive loss for the year, net of tax	—	(2,417,099)	(1,184,619)	—	(44,348,532)	—	(47,950,250)
Total comprehensive loss for the year ended 31 December 2016	—	(2,417,099)	(1,184,619)	—	(44,348,532)	12,364,320	(35,585,930)
Issuance of new shares (<i>Note 20</i>)	15,325,603	—	—	—	—	—	15,325,603
Transfer of reserve upon lapse of share options	—	—	—	(1,506,549)	—	1,506,549	—
Balance as at 31 December 2016	92,109,301	6,560,893	558,083	—	32,848,836	72,496,991	204,574,104

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Share capital US\$	Capital reserve US\$	Exchange translation reserve US\$	Share-based compensation reserve US\$	Investment revaluation reserve US\$	Retained earnings US\$	Total US\$
Balance as at 1 January 2015	76,783,698	15,629,715	2,785,118	1,506,549	52,412,310	47,510,168	196,627,558
Comprehensive income							
Profit for the year attributable to equity holders of the Company	—	—	—	—	—	11,115,954	11,115,954
Other comprehensive income/(loss)							
Share of post-acquisition reserves of associates	—	(6,536,011)	—	—	—	—	(6,536,011)
Release of post-acquisition reserve upon deemed disposal of an associate	—	(115,712)	—	—	—	—	(115,712)
Exchange differences arising on translation of subsidiaries and associates	—	—	(1,042,416)	—	—	—	(1,042,416)
Release of investment revaluation reserve upon disposal of an available-for-sale financial asset	—	—	—	—	(13,309,997)	—	(13,309,997)
Fair value gains of available-for-sale financial assets	—	—	—	—	38,095,055	—	38,095,055
Total other comprehensive income for the year, net of tax	—	(6,651,723)	(1,042,416)	—	24,785,058	—	17,090,919
Total comprehensive income for the year ended 31 December 2015	—	(6,651,723)	(1,042,416)	—	24,785,058	11,115,954	28,206,873
Balance as at 31 December 2015	76,783,698	8,977,992	1,742,702	1,506,549	77,197,368	58,626,122	224,834,431

Consolidated Statement of Cash Flows*For the year ended 31 December 2016*

		Year ended 31 December	
		2016	2015
	<i>Note</i>	<i>US\$</i>	<i>US\$</i>
Cash flows from operating activities			
Cash used in operations	24	(6,435,087)	(5,369,791)
Hong Kong profits tax (paid)/refunded		(51,914)	110,623
Overseas profits tax paid		—	(969,880)
		<u> </u>	<u> </u>
Net cash used in operating activities		<u>(6,487,001)</u>	<u>(6,229,048)</u>
Cash flows from investing activities			
Capital contribution to an associate		—	(7,920,667)
Loan repayment received from an associate		—	4,752,400
Loan advanced to an associate		(2,995,402)	(3,168,267)
Interest received		417,382	526,992
Dividend received from listed investments		429,485	283,317
Dividend received from an associate		319,230	478,950
Uplift of time deposits with initial terms of over three months		—	4,144,215
Purchase of available-for-sale financial assets		(3,145,314)	—
Purchase of financial assets at fair value through profit or loss		(767,507)	(517,004)
Net proceed from disposal of an associate		909,240	—
Net proceed from disposal of an available- for-sale financial asset		21,655,343	18,762,749
Net proceed from disposal of financial asset at fair value through profit or loss		—	5,722,664
		<u> </u>	<u> </u>
Net cash generated from investing activities		<u>16,822,457</u>	<u>23,065,349</u>
Cash flows from financing activities			
Net proceed from issuance of new shares		15,325,603	—
		<u> </u>	<u> </u>
Net cash generated from financing activities		<u>15,325,603</u>	<u> </u>
Net increase in cash and cash equivalents		25,661,059	16,836,301
Cash and cash equivalents at beginning of year		42,784,510	26,225,412
Exchange losses on cash and cash equivalents		(193,248)	(277,203)
		<u> </u>	<u> </u>
Cash and cash equivalents at end of year	19	<u><u>68,252,321</u></u>	<u><u>42,784,510</u></u>

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

China Assets (Holdings) Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in investment holdings in Hong Kong and the People’s Republic of China (“PRC”).

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

These financial statements are presented in United States dollars (“US\$”), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 24 March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of China Assets (Holdings) Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Changes in accounting policy and disclosures

Effect of adopting new standard and amendments to existing accounting standards

The following new standard and amendments to existing accounting standards are mandatory to the Group for the financial year beginning on or after 1 January 2016 but they did not result in any significant impact on the results and financial position of the Group.

HKAS 1 (amendments)	Disclosure initiative
HKAS 16 and HKAS 38 (amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (amendments)	Agriculture: bearer plants
HKAS 27 (2011) (amendments)	Equity method in separate financial statement
HKAS 28 (2011), HKFRS 10 and HKFRS 12 (amendments)	Investment entities: applying the consolidation exception
HKFRS 11 (amendments)	Acquisition of interests in joint operations
HKFRS 14	Regulatory deferral accounts
Annual improvements project	Improvements to HKASs and HKFRSs 2012-2014 cycle

New standards and amendments to existing standards have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted.

		Effective for accounting periods beginning on or after
HKAS 7 (amendments)	Statement of cash flows	1 January 2017
HKAS 12 (amendments)	Income taxes	1 January 2017
HKFRS 2 (amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 4 (amendments)	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 15 (amendments)	Clarifications to HKFRS 15	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the related impact of adopting the above standards and amendments to existing standards to the Group. The Group is not yet in a position to state whether the above amendments will result in substantial changes to the Group's accounting policies and presentation of the financial statements.

(b) Subsidiaries

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

(ii) *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(c) **Associates**

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

(e) Foreign currency translation**(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US\$, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. All foreign exchange gains and losses are presented in the consolidated income statement within 'other gains — net'.

Changes in the fair value of monetary debt securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale are included in other comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(iv) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to the consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange difference is reclassified to the consolidated income statement.

(f) *Impairment of non-financial assets*

Assets that have an indefinite useful life or not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) *Financial assets*

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'loan receivable', 'other receivables, prepayments and deposits' and 'cash and cash equivalents' in the consolidated balance sheet (Notes 2(i) and 2(j)).

(iii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other gains - net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the consolidated income statement as 'other gains - net'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

(h) Impairment of financial assets**(i) *Assets carried at amortised cost***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisations, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and other receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(ii) *Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement — is removed from equity and recognised in consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Impairment testing of loans and other receivables is described in Note 2(h)(i).

(i) Loan receivable and other receivables

If collection of loan receivable and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

(j) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(k) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Other payables

Other payables are recognised initially at fair value and subsequent measured at amortised cost using the effective interest method.

(m) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an

asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(n) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(o) Employee benefits**(i) Pension obligations**

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group participates in a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expenses when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

(p) Income recognition

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised using the effective interest method. When loans and other receivables are impaired, the Group reduces the carrying amounts to their recoverable amounts, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and other receivables are recognised using the original effective interest rate.

(q) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

(r) Operating leases (as the lessee for operating lease)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the consolidated income statement on a straight-line basis over the period of the lease.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Market risk

(1) Foreign exchange risk

The Group operates mainly in Hong Kong and the Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollars ("HK\$") and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group currently does not have a foreign currency hedging policy.

In respect of the Group's monetary assets and liabilities denominated in HK\$, as HK\$ is pegged to US\$, the exposure to fluctuations in exchange rate of HK\$ is considered to be insignificant.

Majority of other Group's monetary assets and liabilities are denominated in the respective entities' functional currencies, which is either US\$ or RMB. Based on a sensitivity analysis performed by management, as at 31 December 2016, if the RMB appreciated/depreciated by 5%, with all other variables held constant, post-tax profit for the year would have been US\$2,193,000 (2015: US\$1,703,000) higher/lower. Equity would have been US\$2,112,000 (2015: US\$4,408,000) higher/lower.

(2) *Price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

If the securities price of the respective investments held by the Group as available-for-sale financial assets and financial assets at fair value through profit or loss were higher or lower by 15% as at 31 December 2016 (2015: 15%), the Group's investment revaluation reserve would increase or decrease by approximately US\$8,405,000 (2015: US\$14,962,000) and 'other gains - net' in the consolidated income statement for the year ended 31 December 2016 would increase or decrease by US\$925,000 (2015: US\$1,125,000) respectively.

(3) *Cash flow and fair value interest rate risk*

The Group's significant interest-bearing assets are cash at bank and bank deposits, where the interest rate is low in the current environment. These bank balances and deposits carry interest at floating interest rates and expose the Group on cash flow interest rate risk. Assuming the balance as 31 December 2016 was the amount for the whole year, if the interest rate was 20 (2015: 20) basis points higher or lower and all other variables were held constant, the Group's profit or loss would increase or decrease by approximately US\$97,000 (2015: US\$79,000).

(ii) *Credit risk*

The Group is exposed to credit risk mainly in relation to its loans and other receivables and deposits with banks. The carrying amounts of loans receivable, other receivables and deposits, short-term bank deposits and cash at banks included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2016, the Group had no significant concentrations of credit risk. It has policies in place to ensure that loans were made to borrowers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any borrower. Adequate provision for unrecoverable loans and other receivables has been made in the relevant accounting period after considering the Group's experience in collection of loans and other receivables.

As at 31 December 2015 and 2016, all the bank deposits are placed with major banks in Hong Kong and the Mainland China. The credit quality of the financial institutions has been assessed by reference to external credit ratings or historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping sufficient cash and marketable securities.

As at 31 December 2015 and 2016, all the Group's financial liabilities are repayable within one year.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust its dividend policy, return capital to shareholders, issue new shares or sell assets to reduce debt.

Capital of the Group for capital management purpose includes share capital, retained earnings, other reserves and subordinated liabilities. Capital is allocated to various business activities of the Group depending on the risk taken by each business, taking into account current and future activities within a time frame.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

As at 31 December 2015 and 2016, the Group had no bank borrowings and, accordingly, the gearing ratios for both years are Nil.

(c) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 31 December 2016.

	Level 1 <i>US\$</i>	Level 2 <i>US\$</i>	Level 3 <i>US\$</i>	Total <i>US\$</i>
Financial assets at fair value through profit or loss				
— listed equity securities	6,168,912	—	—	6,168,912
Available-for-sale financial assets				
— listed equity securities	46,281,399	—	—	46,281,399
— unlisted equity security	—	—	1,500,000	1,500,000
— unlisted investment funds	—	3,299,566	4,952,681	8,252,247
	<u>52,450,311</u>	<u>3,299,566</u>	<u>6,452,681</u>	<u>62,202,558</u>

The following table presents the Group's assets that are measured at fair value at 31 December 2015.

	Level 1 <i>US\$</i>	Level 2 <i>US\$</i>	Level 3 <i>US\$</i>	Total <i>US\$</i>
Financial assets at fair value through profit or loss				
— listed equity securities	5,055,595	—	—	5,055,595
Available-for-sale financial assets				
— listed equity securities	96,247,815	—	—	96,247,815
— unlisted investment funds	—	3,496,750	2,445,657	5,942,407
	<u>101,303,410</u>	<u>3,496,750</u>	<u>2,445,657</u>	<u>107,245,817</u>

There were no transfers between levels 1, 2 and 3 during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily securities listed on the Stock Exchanges of Hong Kong and Shanghai.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments for the year ended 31 December 2016.

	Unlisted Investment funds US\$	Unlisted equity security US\$	Total US\$
Opening balance	2,445,657	—	2,445,657
Additions during the year	1,000,000	1,500,000	2,500,000
Fair value change transfer to other comprehensive income	<u>1,507,024</u>	<u>—</u>	<u>1,507,024</u>
Closing balance	<u><u>4,952,681</u></u>	<u><u>1,500,000</u></u>	<u><u>6,452,681</u></u>

The following table presents the changes in level 3 instruments for the year ended 31 December 2015.

	Unlisted Investment fund US\$	Unlisted equity security US\$	Total US\$
Opening balance	3,136,045	1,749,762	4,885,807
Disposal during the year	—	(1,749,762)	(1,749,762)
Provision for impairment loss recognised in the consolidated income statement	<u>(690,388)</u>	<u>—</u>	<u>(690,388)</u>
Closing balance	<u><u>2,445,657</u></u>	<u><u>—</u></u>	<u><u>2,445,657</u></u>

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value at 31 December		Valuation technique and unobservable input
	2016 US\$	2015 US\$	
Unlisted investment funds			
— Red Stone Fund	3,952,681	2,445,657	Note (i)
— Tianfeng Fund	1,000,000	N/A	Note (ii)
Unlisted equity security	1,500,000	N/A	Note (iii)
	<u>6,452,681</u>	<u>2,445,657</u>	

Notes:

- (i) The fair value is determined based on net assets value of the fund after adjusting the carrying amounts of the underlying investments of the fund to their fair values, primarily using market comparable companies approach.
- (ii) The fair value is determined based on net assets value of the fund after adjusting the carrying amounts of the underlying investments of the fund to their fair values, which are determined based on recent transaction prices.
- (iii) The unlisted equity security was acquired by the Group in August 2016 and management considered that the price of the recent transaction represents its fair value as at 31 December 2016.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of available-for-sale financial assets and financial assets at fair value through profit or loss

The fair value of financial instruments traded in active markets (such as trading and available-for-sale financial assets securities) is based on quoted market prices at the end of the reporting period.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of these estimates are disclosed in Note 3(c).

(b) Estimated impairment of investments in associates

The Group tests whether the carrying amount of investment has suffered from any impairment, in accordance with the accounting policy stated in Note 2(c). The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) Estimated impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(d) Estimated impairment of loans and other receivables

Provision for impairment of loans and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. In determining whether any of the loans and other receivables is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered. Based on the management's estimation, adequate impairment provision has been made on loans and other receivables. Where the final outcome of these matters is different from the management's estimates and judgements, such differences will impact the profit and loss account and carrying value of loans and other receivables in the period in which such determination is made.

(e) Income taxes

The Group is subject to income taxes in various jurisdictions, mainly in Hong Kong and the Mainland China. Significant judgement is required in determining the amount of the provision for income taxes and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5. INVESTMENT MANAGEMENT FEE

Pursuant to a management agreement (“Management Agreement”) dated 28 March 1991 and the subsequent amendments, and a new agreement dated 25 September 2012 (the “New Supplemental Agreement”) which is effective from 1 January 2013 to 31 December 2015 to supplement the Management Agreement for the provision of management and advisory services to the Company, China Assets Investment Management Limited (“CAIML”) (Note 26(a)) was entitled to receive from the Company a management fee calculated at the following rates:

- (i) 2.75% per annum on the aggregate cost to the Company of the investments (less any provisions in respect thereof) held by it from time to time; and
- (ii) 1% per annum on the value of uninvested net assets, representing net asset value of the Company less the aggregate cost of investments made by the Company.

Management fee paid to CAIML for the year ended 31 December 2015 amounted to US\$1,745,468. CAIML was also entitled to receive a performance bonus based on a specified formula as defined in the Management Agreement. Performance bonus paid for the year ended 31 December 2015 amounted to US\$2,386,532.

The annual management fee (including performance bonus, if any) was subject to an annual cap of US\$4,132,000 for the year ended 31 December 2015.

The New Supplemental Agreement expired on 31 December 2015 and therefore no management fee was paid to CAIML for the year ended 31 December 2016.

6. INCOME AND SEGMENT INFORMATION

The principal activity of the Group is investment holding in Hong Kong and Mainland China. Income recognised during the year is as follows:

	2016 US\$	2015 US\$
Income		
Bank interest income	417,382	526,992
Dividend income from listed investments	429,485	283,317
	<u>846,867</u>	<u>810,309</u>

The chief operating decision-maker has been identified as the Board of Directors. Management determines the operating segments based on the Group’s internal reports, which are then submitted to the Board of Directors for performance assessment and resources allocation.

The Board of Directors assesses the performance of the operating segment based on a measure of profit before tax. The measurement policies the Group uses for segment reporting under HKFRS 8 are the same as those used in its HKFRSs financial statements.

The Group has identified one operating segment — investment holding. Accordingly, segment disclosures are not presented.

An analysis of the Group's income by geographic location is as follows:

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Income		
Hong Kong	831,886	700,418
Mainland China	<u>14,981</u>	<u>109,891</u>
	<u>846,867</u>	<u>810,309</u>

An analysis of the Group's non-current assets, other than available-for-sale financial assets by geographic location is as follows:

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Non-current assets, other than available-for-sale financial assets		
Hong Kong	61,398,998	62,111,415
Mainland China	<u>16,183,947</u>	<u>15,894,533</u>
	<u>77,582,945</u>	<u>78,005,948</u>

7. OTHER GAINS – NET

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Net gains on disposals of available-for-sale financial assets	16,701,985	16,149,408
Net gain on disposal of a financial asset at fair value through profit or loss	—	3,972,902
Net fair value gains/(losses) on financial assets at fair value through profit or loss	345,810	(716,295)
Net gain on disposal of an associate	909,240	—
Net gains/(losses) on deemed disposals of interests in associates	229,926	(280,545)
Provision for impairment loss of an available-for-sale financial asset	—	(690,388)
Net exchange losses	<u>(2,483,154)</u>	<u>(1,849,570)</u>
	<u>15,703,807</u>	<u>16,585,512</u>

(a) Breakdown of realised and unrealised gains/(losses)

	2016 US\$	2015 US\$
Net gains on disposals of available-for-sale financial assets	16,701,985	16,149,408
Net gain on disposal of a financial asset at fair value through profit or loss	—	3,972,902
Net fair value gains/(losses) on financial assets at fair value through profit or loss	345,810	(716,295)
Net gain on disposal of an associate	909,240	—
Net gains/(losses) on deemed disposals of interests in associates	229,926	(280,545)
Provision for impairment loss of an available-for-sale financial asset	—	(690,388)
	<u>18,186,961</u>	<u>18,435,082</u>
Represented by:		
	2016 US\$	2015 US\$
Listed investments		
Net realised gains	16,583,498	15,868,863
Net unrealised gains/(losses)	345,810	(716,295)
	<u>16,929,308</u>	<u>15,152,568</u>
Unlisted investments		
Net realised gains	1,257,653	3,972,902
Net unrealised losses	—	(690,388)
	<u>1,257,653</u>	<u>3,282,514</u>
	<u>18,186,961</u>	<u>18,435,082</u>

8. ADMINISTRATIVE EXPENSES

Expenses included in administrative expenses are analysed as follows:

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Investment management fee and performance bonus	—	4,132,000
Employee benefit expenses (including directors' remuneration)	2,635,411	207,507
Auditor's remuneration		
— Audit services	143,429	177,909
— Non-audit services	63,356	63,283
Operating lease rental payments	180,734	—
Other expenses	1,242,816	1,217,051
	<u>4,265,746</u>	<u>5,797,750</u>

9. EMPLOYEE BENEFIT EXPENSES

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Wages and salaries (including directors' remuneration: (Note 28))	2,530,552	205,186
Pension costs — defined contribution plan	104,859	2,321
	<u>2,635,411</u>	<u>207,507</u>

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: four) directors whose emoluments are reflected in the analysis shown in Note 28. The emoluments payable to the remaining three (2015: one) individuals during the year are as follows:

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Basic salaries, housing allowances, other allowances and benefits in kind	536,459	90,572
Pension costs — defined contribution plan	26,835	2,321
Discretionary bonuses	335,484	—
	<u>898,778</u>	<u>92,893</u>

The emoluments fell within the following bands:

	2016	2015
Emolument bands (in HK\$)		
HK\$Nil — HK\$1,000,000	—	1
HK\$1,500,001 — HK\$2,000,000	1	—
HK\$2,000,001 — HK\$2,500,000	1	—
HK\$2,500,001 — HK\$3,000,000	1	—
	<u>3</u>	<u>1</u>

10. INCOME TAX CREDIT

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2016	2015
	US\$	US\$
Current tax:		
— Hong Kong profits tax	—	—
— People's Republic of China ("PRC") corporate income tax	—	—
— Over-provision in respect of prior year	—	(40,370)
	<u>—</u>	<u>(40,370)</u>
Income tax credit	<u>—</u>	<u>(40,370)</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the consolidated entities as follows:

	2016	2015
	US\$	US\$
Profit before income tax	12,364,320	11,075,584
Less: Share of results of associates	(79,392)	(74,756)
	<u>12,284,928</u>	<u>11,000,828</u>
Calculated at applicable domestic profits tax rate of respective jurisdictions	2,154,452	1,772,310
Income not subject to tax	(3,377,071)	(3,477,001)
Expenses not deductible for tax purposes	1,256,621	1,547,627
Utilisation of previously unrecognised tax losses	(47,967)	—
Tax losses not recognised	13,965	157,064
Over-provision in prior year	—	(40,370)
	<u>—</u>	<u>(40,370)</u>
Income tax credit	<u>—</u>	<u>(40,370)</u>

The weighted average applicable tax rate was 17.5% (2015: 16.1%). The increase is caused by a change in the relative profitability of the Group's subsidiaries in the respective jurisdictions.

11. DIVIDENDS

The Board of Directors does not recommend the payment of any dividend for the year ended 31 December 2016 (2015: US\$Nil).

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is calculated by dividing the Group's profit for the year attributable to equity holders of the Company of US\$12,364,320 (2015: US\$11,115,954). The basic earnings per share is based on the weighted average number of 78,352,045 (2015: 76,758,160) ordinary shares in issue during the year.

Diluted earnings per share for the year is the same as the basic earnings per share as there were no potential dilutive shares outstanding (2015: the potential additional ordinary shares are anti-dilutive).

13. SUBSIDIARIES

The following is a list of subsidiaries held directly by the Company at 31 December 2016:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held	
				2016	2015
Balance Target Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Global Lead Technology Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Global Record Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Promise Keep Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Winner Strength Investments Limited	British Virgin Islands	Investment holding	10 shares of US\$1 each	100%	100%
Zhong Guan Business Consultancy (Shanghai) Co. Ltd.	People's Republic of China	Investment holding	Registered capital of US\$140,000	100%	100%

Notes:

1. Apart from Zhong Guan Business Consultancy (Shanghai) Co. Ltd. which directors are Mr. Cheng Sai Wai, Ms. Hao Ya Xin and Ms. Li Yan Ping, the directors of all remaining subsidiaries are Mr. Lo Yuen Yat and Mr. Yeung Wai Kin.
2. The subsidiaries operate principally in their places of incorporation. The kind of legal entity of all subsidiaries are limited liability companies.

14. INTERESTS IN ASSOCIATES

	2016 US\$	2015 US\$
Investments in associates	74,715,767	74,960,649
Loan to an associate (<i>Note</i>)	2,867,178	3,045,299
	<u>77,582,945</u>	<u>78,005,948</u>

Note: As at 31 December 2016 and 2015, the loan to an associate was regarded as equity contribution to the associate.

Movements in the investment in associates are as follows:

	2016 US\$	2015 US\$
As at 1 January	78,458,668	75,242,579
Additional investment in an associate	3,032,692	11,026,748
Disposal of interest in an associate	(597,243)	—
Deemed disposals of interests in associates	193,764	(396,257)
Share of results of associates	79,392	74,756
Share of post-acquisition reserves of associates	(2,380,937)	(6,536,011)
Dividends received	(319,230)	(478,950)
Exchange differences	(850,563)	(474,197)
	<u>77,616,543</u>	<u>78,458,668</u>
As at 31 December	77,616,543	78,458,668
Provision for impairment of investment in associates	(2,900,776)	(3,498,019)
	<u>74,715,767</u>	<u>74,960,649</u>

Movement in the provision for impairment of investment in associates is as follows:

	2016 US\$	2015 US\$
As at 1 January	(3,498,019)	(2,900,776)
Reversal of provision/(provision) for impairment	597,243	(597,243)
	<u>(2,900,776)</u>	<u>(3,498,019)</u>
As at 31 December	(2,900,776)	(3,498,019)

As at 31 December 2016, provision for impairment of investment in associates of US\$2,900,776 (2015: US\$3,498,019) was made by the Group after taking into account of the associates' business developments, financial positions and other factors.

The release of provision for impairment have been included in 'Other gains – net' and in the consolidated income statement (Note 7).

(a) Set out below are the associates of the Group as at 31 December 2016 and 2015:

Name	Particulars of issued shares	Place of incorporation	Principal activities	Interest held	
				2016	2015
First Shanghai Investments Limited (“FSIL”) <i>(See note i below)</i>	Ordinary shares of 1,418,973,012 of HK\$0.2 each	Hong Kong	Investment holding	17.454%	17.522%
Hong Kong Strong Profit Limited (“HKSP”)	Ordinary shares of 4,900 of HK\$1 each	Hong Kong	Dormant	49%	49%
Shanghai International Medical Center Investment Management Company Limited (“SIMC”)	Registered and paid up capital of RMB 652,922,075	People’s Republic of China	Provision of medical service	19.91% ¹	20% ¹
Goldeneye Interactive Limited (“Goldeneye”) <i>(See note ii below)</i>	22,448,980 Ordinary shares of US\$0.001 each; 8,163,265 Series A Preferred shares of US\$0.001 each; 12,185,511 Series B Preferred shares of US\$0.001 each; and 2,181,818 Series C Preferred shares of US\$0.001 each	Cayman Islands	Provision of online real estate information	21.29%	22.37%
Shanghai Moxing Environmental Science and Technology Co Ltd (“SMECT”)	Registered and paid up capital of RMB896,510	People’s Republic of China	Provision of waste oil recycling	—	29.86% ¹

¹ Held indirectly by the Company

Notes:

- (i) FSIL is a company listed on The Stock Exchange of Hong Kong Limited with issued share capital of HK\$1,162,940,000 (2015: HK\$1,157,658,000). Notwithstanding interest in FSIL is less than 20%, which represented 247,674,500 shares held as at 31 December 2016 and 2015, FSIL is considered as an associate of the Company because there are two common directors on the board of FSIL who can exercise significant influence over FSIL’s operations and management decisions. As at 31 December 2016, the market value of the Group’s interest in FSIL was approximately US\$37,690,000 (2015: US\$41,220,000).
- (ii) The Group holds 9,574,300 Series B Preferred shares of US\$0.001 each in the Company, representing a 21.29% equity interest of the Company as at 31 December 2016 (2015: 22.37%).

- (b) Set out below are the summarised financial information for FSIL and SIMC which are accounted for using the equity method:

Summarised balance sheet

	FSIL		SIMC	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Current assets	714,705	648,519	3,691	4,468
Current liabilities	(504,413)	(449,150)	(47,663)	(34,762)
Non-current assets	182,979	243,309	158,089	161,184
Non-current liabilities	(34,763)	(33,984)	(48,742)	(66,997)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Summarised statement of comprehensive income

	FSIL		SIMC	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Revenue	50,392	63,456	11,422	7,387
(Loss)/profit after tax	(7,216)	17,370	(10,414)	(12,088)
Other comprehensive loss	(41,187)	(30,883)	—	—
Total comprehensive loss	(48,403)	(13,513)	(10,414)	(12,088)
Dividend received from an associate	319	479	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those associates) adjusted for difference in accounting policies between the Group and the associates.

- (c) Reconciliation of the summarised financial information presented to the carrying amount of its investments in associates:

	FSIL		SIMC	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Opening net assets as at 1 January	408,693	423,492	63,893	23,325
(Loss)/profit for the year	(7,216)	17,370	(10,414)	(12,088)
Other comprehensive loss	(41,187)	(30,883)	—	—
Transactions with owners	(1,618)	(1,602)	15,174	53,293
Exchange difference	(165)	316	(3,278)	(637)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net assets at 31 December	358,507	408,693	65,375	63,893
Interest in associates	61,035	69,769	13,016	12,779
Effect of cross holding	—	(8,078)	—	—
Goodwill	—	—	5	5
Others	364	420	(12)	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Carrying amount	<u>61,399</u>	<u>62,111</u>	<u>13,009</u>	<u>12,784</u>

As at 31 December 2016, the aggregate carrying amount of interests in individually immaterial associates that are accounted for using the equity method was US\$308,000 (2015: US\$65,000).

During the year ended 31 December 2016, the Group did not have any unrecognised share of losses of associates (2015: Nil). As at 31 December 2016, the accumulated share of losses of the associates unrecognised by the Group was nil (2015: Nil).

The directors have assessed the recoverable amount of the investment, which is determined based on the higher of fair value less costs to sell and value-in-use calculation. As at 31 December 2016, as the recoverable amount of the investment determined based on value-in-use is higher than the carrying amount, there was no impairment in the investment.

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	2015
	<i>US\$</i>	<i>US\$</i>
As at 1 January	102,190,222	80,708,893
Additions	3,145,314	—
Disposals	(20,572,598)	(15,923,338)
Fair value change transfer to other comprehensive income	(28,729,292)	38,095,055
Provision for impairment loss recognised in the consolidated income statement	—	(690,388)
	<u>56,033,646</u>	<u>102,190,222</u>

Available-for-sale financial assets include the following:

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Listed equity securities		
— Canada	1,241	2,403
— Mainland China	40,394,324	90,120,580
— Hong Kong	5,885,834	6,124,832
Unlisted investment funds		
— Mainland China	4,952,681	2,445,657
— Hong Kong	3,299,566	3,496,750
Unlisted equity security		
— United States	1,500,000	—
	<u>56,033,646</u>	<u>102,190,222</u>
Market value of listed securities	<u>46,281,399</u>	<u>96,247,815</u>

Available-for-sale financial assets are denominated in the following currencies:

	2016	2015
	US\$	US\$
Canadian dollars	1,241	2,403
HK dollars	9,185,400	9,621,582
Renminbi	44,347,005	92,566,237
US dollars	2,500,000	—
	<u>56,033,646</u>	<u>102,190,222</u>

At 31 December 2016, the carrying amount of interest in the following company exceeded 10% of total assets of the Group.

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest directly held	
				2016	2015
Shandong Lukang Pharmaceutical Co., Ltd. (“Lukang”)	People’s Republic of China (“PRC”)	Manufacture and sale of pharmaceutical products	581,575,500 foreign legal person shares [#]	4.99%	7.62%

[#] As at 31 December 2016, the Group held 29,018,600 (2015: 44,334,600) shares in Lukang, a company established in the PRC with its A-shares listed on the Shanghai Stock Exchange.

16. LOAN RECEIVABLE

Loan receivable is denominated in the following currency:

	2016	2015
	US\$	US\$
Independent third party (<i>Note</i>):		
Renminbi	<u>6,164,433</u>	<u>6,547,392</u>
Loan receivable — gross	6,164,433	6,547,392
Provision for impairment	<u>(6,164,433)</u>	<u>(6,547,392)</u>
Loan receivable — net	<u>—</u>	<u>—</u>

The carrying amount of loan receivable approximate to its fair value as at 31 December 2016. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan receivable.

Note: The loan receivable from an independent third party was secured by certain assets of the borrower as stipulated in the respective loan agreement. As at 31 December 2016 and 2015, the loan receivable from independent third party was all past due and fully impaired.

As at 31 December 2016 and 2015, the ageing analysis of the loan receivable is as follows:

	2016 <i>US\$</i>	2015 <i>US\$</i>
Past due over 1 year	<u>6,164,433</u>	<u>6,547,392</u>

As of 31 December 2016, loan receivable of US\$6,164,433 (2015: US\$6,547,392) was fully impaired. It is assessed that the loan receivable is not expected to be recovered.

Movement in the provision for impairment of loan receivable is as follows:

	2016 <i>US\$</i>	2015 <i>US\$</i>
As at 1 January	6,547,392	6,915,518
Exchange difference	<u>(382,959)</u>	<u>(368,126)</u>
As at 31 December	<u><u>6,164,433</u></u>	<u><u>6,547,392</u></u>

17. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2016 <i>US\$</i>	2015 <i>US\$</i>
Other receivables		
Interest receivables	2,064,834	2,553,368
Others	<u>2,314,940</u>	<u>2,442,990</u>
	4,379,774	4,996,358
Prepayments and deposits	<u>66,573</u>	<u>25,314</u>
	4,446,347	5,021,672
Provision of impairment of other receivables	<u>(4,222,102)</u>	<u>(4,654,604)</u>
	<u><u>224,245</u></u>	<u><u>367,068</u></u>

Other receivables, prepayments and deposits are denominated in the following currencies:

	2016 <i>US\$</i>	2015 <i>US\$</i>
Renminbi	4,371,070	4,990,467
HK dollars	73,383	31,205
US dollars	<u>1,894</u>	<u>—</u>
	<u><u>4,446,347</u></u>	<u><u>5,021,672</u></u>

Movements in the provision for impairment of other receivables are as follows:

	2016 <i>US\$</i>	2015 <i>US\$</i>
As at 1 January	4,654,604	4,792,243
Exchange difference	<u>(432,502)</u>	<u>(137,639)</u>
As at 31 December	<u><u>4,222,102</u></u>	<u><u>4,654,604</u></u>

As of 31 December 2016 and 2015, substantially all of the other receivables were past due and impaired. Provision for impairment of other receivables of US\$4,222,102 (2015: US\$4,654,604) was made by the Group after taking into account of the debtors' business developments, financial positions and other factors.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 <i>US\$</i>	2015 <i>US\$</i>
Listed equity securities held for trading:		
— Hong Kong	<u>6,168,912</u>	<u>5,055,595</u>
Market value of listed equity securities	<u><u>6,168,912</u></u>	<u><u>5,055,595</u></u>

Changes in fair values of these financial assets are recorded in 'other gains — net' in the consolidated income statement (Note 7).

Financial assets at fair value through profit or loss are presented within the section on 'operating activities' as part of changes in working capital in the consolidated statement of cash flows (Note 24).

The fair value of listed equity securities is based on their current bid prices in an active market.

19. CASH AND CASH EQUIVALENTS

	2016 <i>US\$</i>	2015 <i>US\$</i>
Cash at bank and on hand	19,725,711	3,454,110
Short-term bank deposits with initial terms of less than three months	<u>48,526,610</u>	<u>39,330,400</u>
	<u>68,252,321</u>	<u>42,784,510</u>
Maximum exposure to credit risk	<u><u>68,248,382</u></u>	<u><u>42,783,920</u></u>

The effective interest rates on short-term bank deposits of the Group were as follows:

	2016	2015
Short-term bank deposits	<u>0.20%-1.35%</u>	<u>0.10%-2.25%</u>

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

	2016 US\$	2015 US\$
US dollars	6,207,715	6,636,574
HK dollars	15,981,815	394,605
Renminbi	<u>46,062,791</u>	<u>35,753,331</u>
	<u>68,252,321</u>	<u>42,784,510</u>

The conversion of Renminbi denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2016, the Group held Renminbi denominated cash and bank balances totalling US\$46,061,372 (2015: US\$35,753,331) which were kept in Mainland China, the conversion and remittance of which are subject to these rules and regulations.

20. SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares	Share capital US\$
At 1 January and 31 December 2015	<u>76,758,160</u>	<u>76,783,698</u>
At 1 January 2016	76,758,160	76,783,698
— Issuance of new shares by open offer (<i>Note</i>)	<u>30,703,264</u>	<u>15,325,603</u>
At 31 December 2016	<u>107,461,424</u>	<u>92,109,301</u>

Note: On 13 December 2016, the Company completed an open offer of 30,703,264 offer shares at a subscription price of HK\$3.95 per offer share on the basis of two offer shares for every five existing shares of the Company held by shareholders of the Company at the record date of 16 November 2016. These shares rank pari passu in all respects with the existing ordinary shares of the Company. The net proceeds from the open offer, after deducting directly attributable costs were approximately US\$15,325,603. Details of the open offer were disclosed in the Company's circular dated 21 November 2016.

Share options

Share options were granted to certain directors of the Company and employees of CAIML as incentives and rewards for their contributions to the Group. Each share option entitles the holder to subscribe for one share in the capital of the Company at an exercise price of HK\$5.74 per share, and is exercisable at any time from 25 April 2007 to 24 April 2017 respectively.

A new share option scheme (“New Share Option Scheme”) was approved by an ordinary resolution passed on 23 May 2014 and adopted by the Company on 26 May 2014. The Board of Directors is authorised to implement the New Share Option Scheme in accordance with the rules stated to grant options and to issue and allot shares of the Company pursuant thereto.

Details of the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price in HK\$ per Share	Options (thousands)
As at 1 January 2015	5.74	4,475
Options lapsed	5.74	<u>(500)</u>
As at 31 December 2015 and 1 January 2016	5.74	3,975
Options lapsed (<i>Note</i>)	5.74	<u>(3,975)</u>
As at 31 December 2016	—	<u><u>—</u></u>

Note: As a result of the change of control on 24 April 2016 when the mandatory conditional cash offers made by New Synergies Investments Company Limited became unconditional, options not exercised before 24 October 2016 were lapsed.

During the years ended 31 December 2016 and 2015, no share option was granted and exercised.

21. RESERVES

	Capital Reserve (Note) US\$	Exchange translation reserve US\$	Share-based compensation reserve US\$	Investment revaluation reserve US\$	Retained earnings US\$	Total US\$
Balance as at 1 January 2016	8,977,992	1,742,702	1,506,549	77,197,368	58,626,122	148,050,733
Comprehensive income						
Profit for the year attributable to equity holders of the Company	—	—	—	—	12,364,320	12,364,320
Other comprehensive loss						
Share of post-acquisition reserves of associates	(2,380,937)	—	—	—	—	(2,380,937)
Release of post-acquisition reserve upon deemed disposal of an associate	(36,162)	—	—	—	—	(36,162)
Release of exchange translation reserve upon disposal of an associate	—	(4,528)	—	—	—	(4,528)
Exchange differences arising on translation of subsidiaries and associates	—	(1,180,091)	—	—	—	(1,180,091)
Release of investment revaluation reserve upon disposal of an available-for-sale financial asset	—	—	—	(15,619,240)	—	(15,619,240)
For value losses of available-for-sale financial assets	—	—	—	(28,729,292)	—	(28,729,292)
Total other comprehensive loss for the year, net of tax	<u>(2,417,099)</u>	<u>(1,184,619)</u>	<u>—</u>	<u>(44,348,532)</u>	<u>—</u>	<u>(47,950,250)</u>
Total comprehensive loss for the year	<u>(2,417,099)</u>	<u>(1,184,619)</u>	<u>—</u>	<u>(44,348,532)</u>	<u>12,364,320</u>	<u>(35,585,930)</u>
Transfer of reserve upon lapse of share options	—	—	(1,506,549)	—	1,506,549	—
Balance as at 31 December 2016	<u>6,560,893</u>	<u>558,083</u>	<u>—</u>	<u>32,848,836</u>	<u>72,496,991</u>	<u>112,464,803</u>

Note: Capital reserve mainly includes share of post-acquisition reserves of associates.

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Capital Reserve (Note) US\$	Exchange translation reserve US\$	Share-based compensation reserve US\$	Investment revaluation reserve US\$	Retained earnings US\$	Total US\$
Balance as at 1 January 2015	15,629,715	2,785,118	1,506,549	52,412,310	47,510,168	119,843,860
Comprehensive income						
Profit for the year attributable to equity holders of the Company	—	—	—	—	11,115,954	11,115,954
Other comprehensive income/ (loss)						
Share of post-acquisition reserves of associates	(6,536,011)	—	—	—	—	(6,536,011)
Release of post-acquisition reserve upon deemed disposal of an associate	(115,712)	—	—	—	—	(115,712)
Exchange differences arising on translation of subsidiaries and associates	—	(1,042,416)	—	—	—	(1,042,416)
Release of investment revaluation reserve upon disposal of an available-for- sale financial asset	—	—	—	(13,309,997)	—	(13,309,997)
For value gains of available-for- sale financial assets	—	—	—	38,095,055	—	38,095,055
Total other comprehensive income for the year, net of tax	<u>(6,651,723)</u>	<u>(1,042,416)</u>	<u>—</u>	<u>24,785,058</u>	<u>—</u>	<u>17,090,919</u>
Total comprehensive income for the year	<u>(6,651,723)</u>	<u>(1,042,416)</u>	<u>—</u>	<u>24,785,058</u>	<u>11,115,954</u>	<u>28,206,873</u>
Balance as at 31 December 2015	<u>8,977,992</u>	<u>1,742,702</u>	<u>1,506,549</u>	<u>77,197,368</u>	<u>58,626,122</u>	<u>148,050,733</u>

Note: Capital reserve mainly includes share of post-acquisition reserves of associates.

22. DEFERRED INCOME TAX

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of US\$327,000 (2015: US\$364,000) in respect of losses amounting to US\$1,890,000 (2015: US\$2,134,000) that can be carried forward against future taxable income. Out of the total tax losses, approximately US\$188,000 (2015: US\$140,000) will expire within 5 years and the remaining can be carried forward indefinitely against future taxable income.

Deferred income tax liabilities of US\$21,600 (2015: US\$33,600) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of a subsidiary in the PRC. Such temporary differences are not expected to be reversed in the foreseeable future. At 31 December 2016, total unremitted earnings amounted to US\$432,000 (2015: US\$672,000).

23. OTHER PAYABLES AND ACCRUED EXPENSES

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Other payables	3,226,281	609,505
Accrued expenses	<u>150,427</u>	<u>155,000</u>
	<u><u>3,376,708</u></u>	<u><u>764,505</u></u>

The carrying amounts of accruals and other payables approximate their fair values and are denominated in the following currencies:

	2016	2015
	<i>US\$</i>	<i>US\$</i>
HK dollars	1,408,763	292,378
Renminbi	<u>1,967,945</u>	<u>472,127</u>
	<u><u>3,376,708</u></u>	<u><u>764,505</u></u>

24. CASH USED IN OPERATIONS

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Profit before income tax	12,364,320	11,075,584
Adjustments for:		
Share of results of associates	(79,392)	(74,756)
Bank interest income	(417,382)	(526,992)
Dividend income from listed investments	(429,485)	(283,317)
Net gains on disposal of available-for-sale financial assets	(16,701,985)	(16,149,408)
Net gain on disposal of a financial asset at fair value through profit or loss	—	(3,972,902)
Net fair value (gains)/losses on financial assets at fair value through profit or loss	(345,810)	716,295
Net gain on disposal of an associate	(909,240)	—
Net (gains)/losses on deemed disposals of interests in associates	(229,926)	280,545
Provision for impairment loss of an available-for-sale financial asset	—	690,388
Provision for impairment loss of an associate	—	597,243
Changes in working capital:		
Other receivables, prepayments and deposits	142,823	(160,940)
Other payables and accrued expenses	2,612,203	58,767
Amounts due to related companies	(2,441,213)	2,379,702
Cash used in operations	<u>(6,435,087)</u>	<u>(5,369,791)</u>

25. CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Contracted but not provided for:		
An available-for-sale financial asset	1,000,000	—
Interest in an associate	2,867,178	—
	<u>3,867,178</u>	<u>—</u>

The Group's share of capital commitments of an associate not included in the above are as follows:

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Contracted but not provided for	<u>11,355,863</u>	<u>7,601,444</u>

26. RELATED PARTY TRANSACTIONS

(a) Transactions with related party

Other than disclosed elsewhere in the financial statement during the year, the following transactions with related parties were carried out at prices negotiated and mutually agreed by the respective party.

	2016 US\$	2015 US\$
China Assets Investment Management Limited (“CAIML”):		
— Management fee paid/payable [#]	—	1,745,468
— Performance bonus [#]	—	2,386,532
— Recharge of expenses paid/payable	155,153	—
	<u>155,153</u>	<u>4,132,000</u>
Mr. Lo Yuen Yat (Chairman and chief executive officer)		
— Underwriting commission paid	<u>143,626</u>	<u>—</u>

Note a: CAIML was the investment manager for all investments for the year ended 31 December 2015. Mr. Lo Yuen Yat, the Chairman and an executive director of the Company, is a director of CAIML. Mr. Yeung Wai Kin, a non-executive director of the Company, is a shareholder of CAIML. Mr. Zhao Yu Qiao, a non-executive director of the Company, is an indirect shareholder of CAIML. The management agreement with CAIML expired on 31 December 2015, therefore no management fee payable to CAIML for the year ended 31 December 2016.

[#] These were regarded as continuing connected transactions as defined under Main Board Listing Rules.

(b) Key management compensation

	2016 US\$	2015 US\$
Salaries and other short-term employee benefits	837,686	205,186
Pension costs — defined contribution plan	45,588	2,321
Discretionary bonuses	536,774	—
	<u>1,420,048</u>	<u>207,507</u>

- (c) The amounts due to related companies are denominated in United States dollars, unsecured, interest-free and repayable on demand.

	2016 US\$	2015 US\$
Amount due to an associate	349,989	374,008
Amount due (from)/to a related company (Note)	<u>(3,558)</u>	<u>2,413,636</u>
Amounts due to related companies	<u>346,431</u>	<u>2,787,644</u>
Loan to an associate (Note 14)	<u>2,867,178</u>	<u>3,045,299</u>

Note: The amount due to a related company at 31 December 2015 represented management fee and performance bonus payable to CAIML.

27. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
Note	2016 US\$	2015 US\$
ASSETS		
Non-current assets		
Investments in subsidiaries	17,023,956	16,521,673
Investments in associates	13,857,026	13,857,026
Available-for-sale financial assets	<u>56,033,646</u>	<u>102,190,222</u>
Total non-current assets	<u>86,914,628</u>	<u>132,568,921</u>
Current assets		
Other receivables, prepayments and deposits	222,373	286,728
Financial assets at fair value through profit or loss	6,168,912	5,055,595
Tax recoverable	51,937	—
Amount due from a related company	2,540	—
Cash and cash equivalents	<u>66,364,821</u>	<u>40,074,841</u>
Total current assets	<u>72,810,583</u>	<u>45,417,164</u>
Total assets	<u>159,725,211</u>	<u>177,986,085</u>

	<i>Note</i>	As at 31 December	
		2016 US\$	2015 US\$
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		92,109,301	76,783,698
Reserves	<i>a</i>	<u>63,939,100</u>	<u>97,570,823</u>
Total equity		<u>156,048,401</u>	<u>174,354,521</u>
LIABILITIES			
Current liabilities			
Other payables and accrued expenses		3,310,038	763,745
Amounts due to subsidiaries and related companies		350,009	2,851,056
Current income tax liabilities		<u>16,763</u>	<u>16,763</u>
Total current liabilities		<u>3,676,810</u>	<u>3,631,564</u>
Total liabilities		<u>3,676,810</u>	<u>3,631,564</u>
Total equity and liabilities		<u>159,725,211</u>	<u>177,986,085</u>

Note a Reserve movement of the Company

	Share-based compensation reserve US\$	Investment revaluation reserve US\$	(Accumulated losses)/ Retained earnings US\$	Total US\$
Balance as at 1 January 2015	1,506,549	61,464,303	(1,820,047)	61,150,805
Profit for the year	—	—	13,030,455	13,030,455
Other comprehensive (loss)/income:				
Release of investment revaluation reserve upon disposal of an available-for sale financial asset	—	(14,705,492)	—	(14,705,492)
Fair value gains of available-for-sale financial assets	—	38,095,055	—	38,095,055
Total comprehensive income for the year	—	23,389,563	13,030,455	36,420,018
Balance as at 31 December 2015	<u>1,506,549</u>	<u>84,853,866</u>	<u>11,210,408</u>	<u>97,570,823</u>
Balance as at 1 January 2016	1,506,549	84,853,866	11,210,408	97,570,823
Profit for the year	—	—	13,361,852	13,361,852
Other comprehensive (loss)/income:				
Release of investment revaluation reserve upon disposal of an available-for sale financial asset	—	(18,264,283)	—	(18,264,283)
Fair value gains of available-for-sale financial assets	—	(28,729,292)	—	(28,729,292)
Total comprehensive loss for the year	—	(46,993,575)	13,361,852	(33,631,723)
Transfer of reserve upon lapse of share options	(1,506,549)	—	1,506,549	—
Balance as at 31 December 2016	<u>—</u>	<u>37,860,291</u>	<u>26,078,809</u>	<u>63,939,100</u>

28. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(A) Directors' and chief executives' emoluments

The remuneration of each of the directors is set out below.

For the year ended 31 December 2016:

	Fees	Salary	Discretionary bonuses	Pension costs — defined contribution plan	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Executive directors					
Mr. Lo Yuen Yat <i>(Chairman and chief executive officer)</i>	89,040	2,884,000	960,000	267,800	4,200,840
Mr. Cheng Sai Wai	89,040	729,400	1,000,000	67,730	1,886,170
Non-executive directors					
Mr. Yeung Wai Kin	143,640	—	600,000	—	743,640
Mr. Zhao Yu Qiao	89,040	—	—	—	89,040
Ms. Lao Yuan Yuan	89,040	—	600,000	—	689,040
Independent non-executive directors					
Mr. Fan Jia Yan	211,680	—	—	—	211,680
Mr. Wu Ming Yu	177,030	—	—	—	177,030
Dr. David William Maguire	122,430	—	—	—	122,430
Total	<u>1,010,940</u>	<u>3,613,400</u>	<u>3,160,000</u>	<u>335,530</u>	<u>8,119,870</u>
Equivalent to US\$					<u>1,047,302</u>

For the year ended 31 December 2015:

	Fees	Total
	<i>HK\$</i>	<i>HK\$</i>
Executive directors		
Mr. Lo Yuen Yat (<i>Chairman and chief executive officer</i>)	89,040	89,040
Ms. Lao Yuan Yuan	89,040	89,040
Non-executive directors		
Mr. Yeung Wai Kin	143,640	143,640
Mr. Zhao Yu Qiao	89,040	89,040
Independent non-executive directors		
Mr. Fan Jia Yan	200,550	200,550
Mr. Wu Ming Yu	165,900	165,900
Dr. David William Maguire	111,300	111,300
Total	<u>888,510</u>	<u>888,510</u>
Equivalent to US\$		<u>114,610</u>

(B) Directors' retirement benefits

None of the directors received or will receive any retirement benefits during the year (2015: Nil).

(C) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2015: Nil).

(D) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2016, the Company did not pay consideration to any third parties for making available directors' services (2015: Nil).

(E) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2016, there is no loan, quasi-loan and other dealing arrangement in favour of the directors, or controlled bodies corporate by and connected entities with such directors (2015: Nil).

(F) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2017

The following is the full text of the unaudited condensed consolidated financial information of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017 extracted from the Company’s interim report for the six months ended 30 June 2017. Capitalised terms used in this section shall have the same meanings as those defined in such interim report.

Condensed Consolidated Income Statement

For the six months ended 30 June 2017

		Unaudited	
		Six months ended 30 June	
		2017	2016
	<i>Note</i>	<i>US\$</i>	<i>US\$</i>
Income	6	483,475	287,515
Other gains — net	7	6,664,647	93,239
Administrative expenses	8	<u>(1,478,909)</u>	<u>(1,244,056)</u>
Operating profit/(loss)		5,669,213	(863,302)
Share of loss of associates		<u>(453,470)</u>	<u>(353,710)</u>
Profit/(loss) before income tax		5,215,743	(1,217,012)
Income tax expense	9	<u>(7,367)</u>	<u>(106,544)</u>
Profit/(loss) for the period attributable to equity holders of the Company		<u><u>5,208,376</u></u>	<u><u>(1,323,556)</u></u>
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	10	0.0485	(0.0172)
Diluted	10	<u>0.0485</u>	<u>(0.0172)</u>
Dividend	11	<u>—</u>	<u>—</u>

Condensed Consolidated Statement of Comprehensive Income*For the six months ended 30 June 2017*

	Unaudited	
	Six months ended 30 June	
	2017	2016
	<i>US\$</i>	<i>US\$</i>
Profit/(loss) for the period	<u>5,208,376</u>	<u>(1,323,556)</u>
Other comprehensive loss:		
<i>Items that have been reclassified or may be subsequently reclassified to profit or loss</i>		
Share of post-acquisition reserves of an associate	240,167	(125,161)
Release of post-acquisition reserve upon deemed disposal of an associate	—	(36,161)
Exchange differences arising on translation of associates and subsidiaries	300,280	(327,146)
Release of investment revaluation reserve upon disposal of an available-for-sale financial asset	(4,651,885)	—
Fair value losses of available-for-sale financial assets	<u>(3,595,468)</u>	<u>(30,094,729)</u>
Other comprehensive loss for the period, net of tax	<u>(7,706,906)</u>	<u>(30,583,197)</u>
Total comprehensive loss for the period attributable to equity holders of the Company	<u>(2,498,530)</u>	<u>(31,906,753)</u>

Condensed Consolidated Balance Sheet*As at 30 June 2017*

		Unaudited 30 June 2017 US\$	Audited 31 December 2016 US\$
	<i>Note</i>		
ASSETS			
Non-current assets			
Interests in associates		77,619,174	77,582,945
Available-for-sale financial assets		47,492,650	56,033,646
Total non-current assets		<u>125,111,824</u>	<u>133,616,591</u>
Current assets			
Loan receivable	<i>12</i>	—	—
Other receivables, prepayments and deposits	<i>13</i>	311,947	224,245
Amount due from a related company		21,507	3,558
Financial assets at fair value through profit or loss		7,115,690	6,168,912
Tax recoverable		51,937	51,937
Cash and cash equivalents	<i>14</i>	72,332,892	68,252,321
Total current assets		<u>79,833,973</u>	<u>74,700,973</u>
Total assets		<u><u>204,945,797</u></u>	<u><u>208,317,564</u></u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	<i>15</i>	92,109,301	92,109,301
Reserves		109,966,273	112,464,803
Total equity		<u>202,075,574</u>	<u>204,574,104</u>
LIABILITIES			
Current liabilities			
Other payables and accrued expenses		2,485,695	3,376,708
Amount due to a related company		360,398	349,989
Current income tax liabilities		24,130	16,763
Total current liabilities		<u>2,870,223</u>	<u>3,743,460</u>
Total liabilities		<u>2,870,223</u>	<u>3,743,460</u>
Total equity and liabilities		<u><u>204,945,797</u></u>	<u><u>208,317,564</u></u>

Condensed Consolidated Statement of Cash Flows*For the six months ended 30 June 2017*

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2017	2016
		<i>US\$</i>	<i>US\$</i>
Cash Flows from operating activities			
Net cash used in operating activities		(1,258,954)	(1,486,162)
Cash flows from investing activities			
Interest received	6	369,351	244,495
Dividend received from listed investments	6	114,124	43,020
Dividend received from an associate		—	319,230
Purchase of financial assets at fair value through profit or loss		—	(767,507)
Purchase of available-for-sale financial assets		(1,000,000)	(645,315)
Net proceed from disposal of an associate		—	348,397
Net proceed from disposal of an available-for-sale financial asset		<u>5,805,302</u>	<u>—</u>
Net cash generated from/(used in) investing activities		<u>5,288,777</u>	<u>(457,680)</u>
Net increase/(decrease) in cash and cash equivalents		4,029,823	(1,943,842)
Cash and cash equivalents at beginning of the period		68,252,321	42,784,510
Exchange gains/(losses)		<u>50,748</u>	<u>(63,077)</u>
Cash and cash equivalents at end of the period	14	<u><u>72,332,892</u></u>	<u><u>40,777,591</u></u>

Condensed Consolidated Statement of Changes in Equity*For the six months ended 30 June 2017*

	Share capital US\$	Capital reserve US\$	Unaudited		Retained earnings US\$	Total US\$
			Exchange translation reserve US\$	Investment revaluation reserve US\$		
Balance as at 1 January 2017	92,109,301	6,560,893	558,083	32,848,836	72,496,991	204,574,104
Comprehensive income						
Profit for the period attributable to equity holders of the Company	—	—	—	—	5,208,376	5,208,376
Other comprehensive income/(loss)						
Share of post-acquisition reserves of an associate	—	240,167	—	—	—	240,167
Exchange differences arising on translation of associates and subsidiaries	—	—	300,280	—	—	300,280
Release of investment revaluation reserve upon disposal of an available-for-sale financial asset	—	—	—	(4,651,885)	—	(4,651,885)
Fair value losses of available-for-sale financial assets	—	—	—	(3,595,468)	—	(3,595,468)
Total other comprehensive income/(loss) for the period, net of tax	—	240,167	300,280	(8,247,353)	—	(7,706,906)
Total comprehensive income/(loss) for the period ended 30 June 2017	—	240,167	300,280	(8,247,353)	5,208,376	(2,498,530)
Balance as at 30 June 2017	92,109,301	6,801,060	858,363	24,601,483	77,705,367	202,075,574

For the six months ended 30 June 2016

	Share capital	Capital reserve	Exchange translation reserve	Unaudited Share-based compensation reserve	Investment revaluation reserve	Retained earnings	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as at 1 January 2016	76,783,698	8,977,992	1,742,702	1,506,549	77,197,368	58,626,122	224,834,431
Comprehensive loss							
Loss for the period attributable to equity holders of the Company	—	—	—	—	—	(1,323,556)	(1,323,556)
Other comprehensive loss							
Share of post-acquisition reserves of an associate	—	(125,161)	—	—	—	—	(125,161)
Release of post-acquisition reserve upon deemed disposal of an associate	—	(36,161)	—	—	—	—	(36,161)
Exchange differences arising on translation of associates and subsidiaries	—	—	(327,146)	—	—	—	(327,146)
Fair value losses of available-for-sale financial assets	—	—	—	—	(30,094,729)	—	(30,094,729)
Total other comprehensive loss for the period, net of tax	—	(161,322)	(327,146)	—	(30,094,729)	—	(30,583,197)
Total comprehensive loss for the period ended 30 June 2016	—	(161,322)	(327,146)	—	(30,094,729)	(1,323,556)	(31,906,753)
Balance as at 30 June 2016	<u>76,783,698</u>	<u>8,816,670</u>	<u>1,415,556</u>	<u>1,506,549</u>	<u>47,102,639</u>	<u>57,302,566</u>	<u>192,927,678</u>

Notes to the Condensed Consolidated Financial Statements**1. GENERAL INFORMATION**

China Assets (Holdings) Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the investment holdings in Hong Kong and the People’s Republic of China (“PRC”). The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited. This condensed consolidated interim financial information is presented in United States dollars (“US\$”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 25 August 2017. The condensed consolidated interim financial information has not been audited.

The financial information relating to the year ended 31 December 2016 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2017 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap.622).

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622).

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

New and amended standards and interpretations that have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted:

		Effective for the Group for annual periods beginning on or after
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 15 (amendments)	Clarifications to HKFRS 15	1 January 2018
HKFRS 4 (amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKAS 28 (amendments)	Investments in associates and joint ventures	1 January 2018
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture	A date to be determined

The Group has already commenced an assessment of the related impact of adopting the above standards, amendments to existing standards and interpretations to the Group. The Group is not yet in a position to state whether the above amendments will result in substantial changes to the Group's accounting policies and presentation of the financial statements.

4. ESTIMATES

The preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in the risk management policies since year end.

5.2 Fair value estimation

Compared to 31 December 2016 there was no material change in the contractual undiscounted cash outflows for financial liabilities. The tables below analyse financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 30 June 2017.

	Unaudited			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Financial assets at fair value through profit or loss				
— listed equity securities	7,115,690	—	—	7,115,690
Available-for-sale financial assets				
— listed equity securities	36,039,157	—	—	36,039,157
— unlisted equity security	—	—	1,500,000	1,500,000
— unlisted investment funds	—	3,613,984	6,339,509	9,953,493
	<u>43,154,847</u>	<u>3,613,984</u>	<u>7,839,509</u>	<u>54,608,340</u>

The following table presents the Group's assets that are measured at fair value at 31 December 2016.

	Audited			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Financial assets at fair value through profit or loss				
— listed equity securities	6,168,912	—	—	6,168,912
Available-for-sale financial assets				
— listed equity securities	46,281,399	—	—	46,281,399
— unlisted equity security	—	—	1,500,000	1,500,000
— unlisted investment funds	—	3,299,566	4,952,681	8,252,247
	<u>52,450,311</u>	<u>3,299,566</u>	<u>6,452,681</u>	<u>62,202,558</u>

There were no transfers between levels 1, 2 and 3 during the period.

There were no changes in valuation techniques during the period.

For the period ended 30 June 2017, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

5.3 Fair value measurement using significant unobservable inputs (Level 3)

30 June 2017	Unlisted investment funds US\$	Unlisted equity security US\$	Total US\$
Opening balance at 1 January 2017	4,952,681	1,500,000	6,452,681
Additions during the period	1,000,000	—	1,000,000
Fair value change transfer to other comprehensive income	386,828	—	386,828
Closing balance at 30 June 2017	<u>6,339,509</u>	<u>1,500,000</u>	<u>7,839,509</u>

30 June 2016	Unlisted investment fund US\$	Total US\$
Opening balance at 1 January 2016	2,445,657	2,445,657
Fair value change transfer to other comprehensive income	1,765,519	1,765,519
Closing balance at 30 June 2016	<u>4,211,176</u>	<u>4,211,176</u>

6. INCOME AND SEGMENT INFORMATION

The principal activity of the Group is investment holdings in Hong Kong and the PRC. Income recognised during the period is as follows:

	Unaudited Six months ended 30 June	
	2017 US\$	2016 US\$
Income		
Bank interest income	369,351	244,495
Dividend income from listed investments	114,124	43,020
	<u>483,475</u>	<u>287,515</u>

The chief operating decision-maker has been identified as the Board of Directors. Management determines the operating segments based on the Group's internal reports, which are then submitted to the Board of Directors for performance assessment and resources allocation.

The Board of Directors assesses the performance of the operating segment based on a measure of profit before tax. The measurement policies the Group uses for segment reporting under HKFRS 8, "Operating segments", are the same as those used in its HKFRS financial statements.

The Group has identified only one operating segment — investment holding. Accordingly, segment disclosures are not presented.

7. OTHER GAINS — NET

	Unaudited	
	Six months ended 30 June	
	2017	2016
	<i>US\$</i>	<i>US\$</i>
Listed investments		
Unrealised fair value gains/(losses) on financial assets		
at fair value through profit or loss	946,778	(296,106)
Net gain on disposal of an available-for-sale financial asset	4,511,659	—
Net loss on deemed disposal of interest in an associate	—	(118,487)
	5,458,437	(414,593)
	5,458,437	(414,593)
Unlisted investments		
Net gain on disposal of interest in an associate	—	885,239
Net gain on deemed disposal of interest in an associate	—	16,139
	—	901,378
	—	901,378
	5,458,437	486,785
	5,458,437	486,785
Sundry income	82,452	—
Net exchange gains/(losses)	1,123,758	(393,546)
	6,664,647	93,239
	6,664,647	93,239

8. ADMINISTRATIVE EXPENSES

Expenses included in administrative expenses are analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	<i>US\$</i>	<i>US\$</i>
Legal and professional fee	133,701	131,989
Staff costs, including directors' remuneration	756,683	736,526
Operating lease rental payments	98,071	92,470
	988,455	960,985
	988,455	960,985

9. INCOME TAX EXPENSE

Hong Kong and overseas profits tax has been provided at the rate of 16.5% (2016: 16.5%) and at the rates of taxation prevailing in the countries in which the Group operates respectively.

The amount of income tax expense charged to the condensed consolidated income statement represents:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	<i>US\$</i>	<i>US\$</i>
Current income tax:		
— Overseas profits tax	7,367	106,544
	<u>7,367</u>	<u>106,544</u>

10. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is calculated by dividing the Group's profit/(loss) for the period attributable to equity holders of the Company of US\$5,208,376 (2016: loss of US\$1,323,556). The basic earnings per share is based on the weighted average number of 107,461,424 (2016: 76,758,160) ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the six months ended 30 June 2017 and 2016 are the same as the basic earnings/(loss) per share as there were no potential dilutive shares outstanding.

11. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: nil).

12. LOAN RECEIVABLE

Loan receivable is denominated in the following currency:

	Unaudited	Audited
	30 June	31 December
	2017	2016
	<i>US\$</i>	<i>US\$</i>
Independent third party:		
Renminbi	6,331,164	6,164,433
Provision for impairment	(6,331,164)	(6,164,433)
	<u>—</u>	<u>—</u>
Loan receivable — net	<u>—</u>	<u>—</u>

The carrying amounts of loan receivable approximate to their fair values as at 30 June 2017. The maximum exposure to credit risk at the reporting date is the fair value (i.e. its carrying amount) of the loan receivable.

As at 30 June 2017 and 31 December 2016, the ageing analysis of the loan receivable is as follows:

	Unaudited 30 June 2017 <i>US\$</i>	Audited 31 December 2016 <i>US\$</i>
Past due over 1 year	6,331,164	6,164,433
	<u>6,331,164</u>	<u>6,164,433</u>

As of 30 June 2017, loan receivable of US\$6,331,164 (31 December 2016: US\$6,164,433) is fully impaired. It is assessed that the loan receivable is not expected to be recovered.

Movements in the provision for impairment of loan receivable are as follows:

	Unaudited 30 June 2017 <i>US\$</i>	Audited 31 December 2016 <i>US\$</i>
At beginning of the period	6,164,433	6,547,392
Exchange difference	166,731	(382,959)
At end of the period	<u>6,331,164</u>	<u>6,164,433</u>

13. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Unaudited 30 June 2017 <i>US\$</i>	Audited 31 December 2016 <i>US\$</i>
Other receivables	4,575,898	4,379,774
Prepayments and deposits	72,348	66,573
	<u>4,648,246</u>	<u>4,446,347</u>
Provision for impairment	(4,336,299)	(4,222,102)
	<u>311,947</u>	<u>224,245</u>

Movements in the provision for impairment of other receivables are as follows:

	Unaudited 30 June 2017 <i>US\$</i>	Audited 31 December 2016 <i>US\$</i>
At beginning of the period	4,222,102	4,654,604
Exchange difference	114,197	(432,502)
	<u>4,336,299</u>	<u>4,222,102</u>

14. CASH AND CASH EQUIVALENTS

Included in the cash and cash equivalents of the Group are Renminbi deposits and cash in the Mainland China of US\$53,539,959 (31 December 2016: US\$46,061,372). The conversion of the RMB denominated balances into foreign currencies and the remittance of foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

15. SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares	Share capital <i>US\$</i>
At 1 January 2016	76,758,160	76,783,698
— Issuance of new shares by open offer (<i>Note</i>)	30,703,264	15,325,603
	<u>107,461,424</u>	<u>92,109,301</u>

Note: On 13 December 2016, the Company completed an open offer of 30,703,264 offer shares at a subscription price of HK\$3.95 per offer share on the basis of two offer shares for every five existing shares of the Company held by shareholders of the Company at the record date of 16 November 2016. These shares rank pari passu in all respects with the existing ordinary shares of the Company. The net proceeds from the open offer, after deducting directly attributable costs were US\$15,325,603. Details of the open offer were disclosed in the Company's circular dated 21 November 2016.

16. CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	Unaudited 30 June 2017 <i>US\$</i>	Audited 31 December 2016 <i>US\$</i>
Contracted but not provided for:		
An available-for-sale financial asset	—	1,000,000
Interest in an associate	2,944,727	2,867,178
	<u>2,944,727</u>	<u>2,867,178</u>

The Group's share of capital commitments of an associate not included in the above are as follows:

	Unaudited 30 June 2017 <i>US\$</i>	Audited 31 December 2016 <i>US\$</i>
Contracted but not provided for	12,657,345	11,355,863
	<u>12,657,345</u>	<u>11,355,863</u>

17. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of business are as follows:

- (a) During the period, the Company paid expense recharges totaling US\$83,297 (2016: US\$78,776) to China Assets Investment Management Limited ("CAIML").
- (b) The amounts due from/(to) related companies are denominated in United States dollars, unsecured, interest-free and repayable on demand.
- (c) **Key management compensation**

	Unaudited Six months ended 30 June 2017 <i>US\$</i>	2016 <i>US\$</i>
Salaries and other short-term employee benefits	329,041	327,222
Pension costs — defined contribution plan	13,037	11,149
	<u>342,078</u>	<u>338,371</u>

Key management includes directors and an executive who have important roles in making operational and financial decisions.

18. SUBSEQUENT EVENTS

On 26 June 2017, New Synergies Investments Company Limited (the “Offeror”) approached the Board about a proposal which, if implemented, will result in the Company becoming wholly-owned by the Offeror. The proposal will be implemented by way of a scheme of arrangement under Section 673 of the Companies Ordinance (the “Scheme”).

Under the Scheme, the total consideration payable of HK\$335,512,000 will be payable by the Offeror to the shareholders at HK\$6.8 per share. This transaction is subject to approval of the disinterested shareholders at a court meeting and an Extraordinary General Meeting of the Company’s shareholders.

4. STATEMENT OF INDEBTEDNESS AND CONTINGENT LIABILITIES

As at the close of business on 30 June 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, 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.

5. MATERIAL CHANGE

The Company recorded a consolidated profit of approximately US\$5.2 million for the six months ended 30 June 2017 as compared to its loss of approximately US\$1.3 million for the corresponding period in 2016, details of which are disclosed in the interim report of the Company for the six months ended 30 June 2017.

The Directors confirm that, save as mentioned above, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This Scheme Document includes materials given in compliance with the Takeovers Code for the purpose of providing information with regard to the Proposal, the Offeror and the Company.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Scheme Document (other than those expressed by the Directors (excluding Mr. Lo Yuen Yat)) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any statements in this Scheme Document misleading.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Offeror and parties acting in concert with it (excluding the non-executive Directors)) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the sole director of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any statements in this Scheme Document misleading.

2. SHARE CAPITAL OF THE COMPANY

The issued and paid-up share capital of the Company as at the Latest Practicable Date was US\$92,109,301.

All the Shares in issue rank pari passu in all respects with each other, including as to rights in respect of capital and dividends and voting. The Company has not issued any Shares since 31 December 2016, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date.

As at the Latest Practicable Date, there were 107,461,424 Shares in issue, of which the Offeror and parties acting in concert with it held 58,267,813 Shares, representing approximately 54.22% of the issued share capital of the Company.

Other than the Shares in issue, the Company has no other outstanding shares, options, warrants, derivative or other securities that are convertible or exchangeable into Shares or other types of equity interest in issue.

3. MARKET PRICES

The table below shows the closing price of the Shares as quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the period commencing six months before the date of the Joint Announcement; (ii) the Last Trading Date; and (iii) the Latest Practicable Date:

Date	Closing price per Share HK\$
27 January 2017	3.94
28 February 2017	3.83
31 March 2017	3.89
28 April 2017	3.79
31 May 2017	3.82
26 June 2017**	4.21
31 July 2017	6.47
31 August 2017	6.50
25 September 2017 (the Latest Practicable Date)	6.48

** *the trading of Shares was suspended from 27 June 2017 to 3 July 2017, and therefore no closing price of the Shares were recorded during such period. 26 June 2017 is also the Last Trading Date.*

During the period commencing six months before the date of the Joint Announcement, the highest closing price of the Shares quoted on the Stock Exchange was HK\$4.21 on 26 June 2017 and the lowest closing price of the Shares quoted on the Stock Exchange was HK\$3.73 on 25 April 2017.

4. DISCLOSURE OF INTERESTS

Directors and the chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company, including their respective associates in the equity or equity securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers had been notified to the Company and the Stock Exchange; or (d) to be disclosed under the Takeovers Code were as follows:

Name	Number of Shares held		Total	Approximate percentage of interest in the Company's issued share capital
	Personal interests	Corporate interests		
Mr. Lo Yuen Yat	315,000	57,806,397 <i>(Note 1)</i>	58,121,397	54.09%
Mr. Yeung Wai Kin	146,416		146,416	0.14%

Note 1: Mr. Lo Yuen Yat was deemed to be interested in 57,806,397 shares in the Company held by New Synergies Investments Company Limited (i.e. the Offeror). As at the Latest Practicable Date, the Offeror was owned to the level of 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 58,121,397 shares in the Company by virtue of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company, including their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange

pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers to be notified to the Company and the Stock Exchange; or (d) to be disclosed under the Takeovers Code.

Substantial shareholders' interests and short positions in shares, underlying shares and securities of the Company

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in ten per cent. or more of the issued voting shares of any other member of the Group, or in any options in respect of such share capital were as follows:

Name	Type of interest	Capacity	Number of Shares held	Approximate percentage of interest in the Company's issued share capital
Lo Yuen Yat (<i>Note 1</i>)	Personal	Interest of Controlled Corporation	58,121,397	54.09%
New Synergies Investments Company Limited (<i>Note 1</i>)	Corporate	Beneficial Owner	57,806,397	53.79%
Li Zhi Yun (<i>Note 2</i>)	Personal	Interest of Controlled Corporation	11,305,000	10.52%
Team Assets Group Limited (<i>Note 2</i>)	Corporate	Beneficial Owner	11,305,000	10.52%

Note 1: Mr. Lo Yuen Yat had a deemed interest in 57,806,397 shares in the Company held by New Synergies Investments Company Limited, i.e. the Offeror. Mr. Lo Yuen Yat was taken to be interested in the 58,121,397 shares in the Company by virtue of Part XV of the SFO.

Note 2: Team Assets Group Limited is wholly-owned by Mr. Li Zhi Yun. Therefore, Mr. Li Zhi Yun has a deemed interest in the issued share capital of the Company through his interest in Team Assets Group Limited. Mr. Li Zhi Yun is an independent third party not connected with the Company, Mr. Lo Yuen Yat and the Offeror and is not acting in concert with each of them.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or a short position in the Shares or the 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 or who were, directly or indirectly, interested in ten per cent. or more of the issued voting shares of any other member of the Group, or any options in respect of such share capital, or required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

5. INTERESTS IN THE COMPANY AND THE OFFEROR AND ARRANGEMENTS IN CONNECTION WITH THE PROPOSAL

As at the Latest Practicable Date,

- (i) pursuant to a security deed entered into between GF Securities as chargee and the Offeror as chargor dated 3 July 2017, the Offeror shall deposit all the Shares owned or to be owned by it to a securities account maintained in GF Securities as security for the Facility. Save for that, GF Securities does not hold any securities of the Company and has not dealt in any securities of the Company during the 6-month period preceding the Joint Announcement and up to the Latest Practicable Date, and there was no agreement, arrangement or understanding that any securities of the Company acquired in pursuance of the Proposal would be transferred, charged or pledged to any other persons;
- (ii) save as disclosed in paragraph “4. Disclosure of Interests” of this appendix, neither the Offeror, its sole director nor any party acting in concert with the Offeror was interested in or owned or controlled any Shares, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into, Shares;
- (iii) none of the Offeror and parties acting in concert with it had received any irrevocable commitment to vote for or against the Proposal and the Scheme;
- (iv) no arrangement of the kind referred to in the Note 8 to Rule 22 of the Takeovers Code existed between any person and the Offeror or any person acting in concert with it;
- (v) none of the Offeror or each of the parties acting in concert with it has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

- (vi) no arrangement was in place for any benefit (save for any statutory compensation required under applicable laws) to be given to any Director as compensation for loss of office or otherwise in connection with the Proposal;
- (vii) save for the proposed transfer of Shares to the Offeror by Mr. Lo Yuen Yat and Mr. Yeung Wai Kin disclosed herein, there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Offeror or any person acting in concert with it and any Director, recent Directors, Shareholders or recent Shareholders having any connection with or being dependent upon the Proposal;
- (viii) there was no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not seek to invoke a condition to the Proposal;
- (ix) save for the proposed transfer of Shares to the Offeror by Mr. Lo Yuen Yat and Mr. Yeung Wai Kin and for the Proposal and the Scheme, there were no arrangements relating to the relevant securities as of the type described in Note 8 to Rule 22 of the Takeovers Code between the Offeror or any parties acting in concert with any other person;
- (x) save for the interest of Mr. Lo Yuen Yat disclosed in the section headed “Information about the Offeror” of the Explanatory Statement of this Scheme Document, none of the Company and the Directors was interested in or owned or controlled any shares, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into, shares of the Offeror;
- (xi) save for the interest of Mr. Lo Yuen Yat and Mr. Yeung Wai Kin as disclosed in the section headed “Shareholding structure of the Company and effect of the Proposal and the Scheme” of the Explanatory Statement of this Scheme Document, none of the Directors was interested in or owned or controlled any Shares, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into, Shares;
- (xii) none of the subsidiaries of the Company and pension fund of the Company or of a subsidiary of the Company or an adviser to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code (excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;

- (xiii) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of “associate” in the Takeovers Code;
- (xiv) no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (xv) there were no Shares, derivatives, warrants or convertible or exchangeable securities carrying rights to subscribe for, convert or exchange into, Shares which the Company, Directors had borrowed or lent;
- (xvi) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal; and
- (xvii) no material contracts have been entered into by the Offeror in which any Director has a material personal interest.

6. DEALING IN SECURITIES AND OTHER ARRANGEMENTS

During the 6-month period preceding the Joint Announcement and up to the Latest Practicable Date,

- (i) none of the Offeror, the sole director of the Offeror and parties acting in concert with the Offeror has dealt in any Shares, options, derivatives, warrants or other securities convertible into the Shares or other types of equity interest in the Company;
- (ii) no person who had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any parties acting in concert with it had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (iii) none of the Company, any of its subsidiaries, and the Directors has dealt for value in any shares, convertible securities, warrants, options or derivatives of the Offeror;
- (iv) none of the Directors has dealt in any Shares, options, derivatives, warrants or other securities convertible into the Shares or other types of equity interest in the Company;

- (v) none of the subsidiaries of the Company or any pension funds of the Group or any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders) has dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (vi) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of “associate” under the Takeovers Code has dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and
- (vii) no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis has dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

7. DIRECTORS’ SERVICE CONTRACTS

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

- (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the commencement of the offer period;
- (ii) are continuous contracts with a notice period of 12 months or more; or
- (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

None of the Directors will be or has been given any benefits (save for any statutory compensation required under applicable laws) as compensation for loss of office or otherwise in connection with the Proposal.

8. LITIGATION

As at the Latest Practicable Date, none of the Company and its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was pending or threatened by or against the Company or any other member of the Group.

9. MATERIAL CONTRACTS

Save for the underwriting agreement dated 31 October 2016 entered into between the Company and Mr. Lo Yuen Yat, as the underwriter, in relation to the underwriting arrangement in respect of the open offer of 30,703,264 offer shares of the Company at the offer price of HK\$3.95 per share on the basis of an assured allotment for shareholders of the Company of two new offer shares for every five shares held on the terms and subject to the conditions set out in the circular of the Company dated 21 November 2016 and the relevant application forms, no material contracts other than contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group had been entered into by any member of the Group within two years preceding the date of the Joint Announcement and up to the Latest Practicable Date.

10. EXPERTS AND CONSENTS

The followings are the names and qualifications of the professional advisers whose letters, opinions or advice are contained or referred to in this Scheme Document:

Name	Qualification
GF Capital (Hong Kong) Limited	a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Nuada Limited	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance regulated activities under the SFO)

The above experts have given and have not withdrawn their written consent to the issue of this Scheme Document with the inclusion herein of their advice, letter and/or references to their names in the form and context in which it appears.

11. MISCELLANEOUS

As at the Latest Practicable Date:

- (a) the registered office of the Offeror is at Room 301, Tung Wah Mansion, 199-203 Hennessy Road, Wanchai, Hong Kong;

- (b) the principal members of the Offeror's concert party are the Offeror and Mr. Lo Yuen Yat, whose correspondence address is at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong;
- (c) the Offeror is owned by Mr. Lo Yuen Yat (as to 40%), his brother Mr. Lao Kaisheng (as to 30%) and his sister Ms. Lao Jiangsheng (as to 30%) and Mr. Lo Yuen Yat is the sole director of the Offeror;
- (d) the registered office and principal place of business of the Company is 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong;
- (e) The company 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;
- (f) the registered office and principal business address of GF Capital is 29-30/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong;
- (g) the registered office and principal business address of the Independent Financial Adviser is Unit 1805-08, 18/F, OfficePlus@Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, Hong Kong; and
- (h) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) on the website of the Securities and Futures Commission at <http://www.sfc.com.hk>; (ii) on the website of the Company at <http://www.chinaassets.com>; and (iii) (during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and gazetted public holidays in Hong Kong)) (Hong Kong time) at the registered office of the Company at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong, from the date of this Scheme Document up to the Effective Date or the date on which the Scheme is withdrawn or lapses (whichever is earlier):

- (a) the articles of association of the Company;
- (b) the articles of association of the Offeror;

- (c) the annual reports containing the audited consolidated financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016;
- (d) the interim report containing the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2017;
- (e) the letter from the Board, the text of which is set out on pages 14 to 22 of this Scheme Document;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 23 to 24 of this Scheme Document;
- (g) the letter from the Independent Financial Adviser, the text of which is set out on pages 25 to 50 of this Scheme Document;
- (h) the Underwriting Agreement entered into between the Company and Mr. Lo Yuen Yat dated 31 October 2016; and
- (i) the written consents referred to in section 10 above headed “Experts and consent” in this Appendix II.

SCHEME OF ARRANGEMENT

HCMP No. 1875 of 2017

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 1875 OF 2017
IN THE MATTER OF
CHINA ASSETS (HOLDINGS) LIMITED**

AND

**IN THE MATTER OF
THE COMPANIES ORDINANCE,
CHAPTER 622 OF THE LAWS OF THE HONG KONG SPECIAL
ADMINISTRATIVE REGION**

**SCHEME OF ARRANGEMENT
Under Section 673 of the Companies Ordinance
Chapter 622 of the Laws of the Hong Kong Special Administrative Region**

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context:

acting in concert	has the meaning ascribed to it in the Takeovers Code, and “persons acting in concert” and “concert parties” shall be construed accordingly
Cancellation Price	means the cancellation price of HK\$6.8 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
Companies Ordinance	means the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Company	means China Assets (Holdings) Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange (Stock Code: 170)

SCHEME OF ARRANGEMENT

Effective Date	means the date on which the Scheme becomes effective pursuant to paragraph 5 of this Scheme
High Court	means the High Court of Hong Kong
HK\$	means the Hong Kong dollar(s), the lawful currency of Hong Kong
Hong Kong	means Hong Kong Special Administrative Region of the People's Republic of China
Latest Practicable Date	means 25 September 2017, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein
New Shares	means the new Shares to be issued to the Offeror pursuant to this Scheme, the number of which is equal to the number of the Scheme Shares cancelled
Offeror	means New Synergies Investments Company Limited, a company incorporated in Hong Kong with limited liability
Record Date	6 November 2017
Register	means the register of members of the Company
Scheme	means this scheme of arrangement under Section 673 of the Companies Ordinance (with or subject to any modification thereto or condition approved or imposed by the High Court) between the Company and the Scheme Shareholders involving, inter alia, the cancellation of all the Scheme Shares and the issue of the New Shares to the Offeror
Scheme Document	means the scheme document dated 28 September 2017 issued jointly by the Company and the Offeror, which includes this Scheme
Scheme Share(s)	means Share(s) other than those beneficially owned by the Offeror and parties acting in concert with it

SCHEME OF ARRANGEMENT

Scheme Shareholders	means registered holders of the Scheme Shares
Share(s)	means ordinary share(s) in the capital of the Company
Shareholder(s)	means registered holder(s) of the Share(s)
Stock Exchange	means The Stock Exchange of Hong Kong Limited
Takeovers Code	means the Hong Kong Code on Takeovers and Mergers

- (B) As at the Latest Practicable Date, the issued share capital of the Company was 107,461,424 Shares.
- (C) On the Latest Practicable Date, the Offeror and parties acting in concert with it owned or controlled 58,267,813 Shares, representing approximately 54.22% of the issued Shares.
- (D) The Shares beneficially owned by parties acting in concert with the Offeror, including Mr. Lo Yuen Yat and Mr. Yeung Wai Kin, in respect of the Company will not form part of the Scheme Shares and will not be cancelled. Upon the Scheme becoming effective, those owned by Mr. Lo Yuen Yat and Mr. Yeung Wai Kin will be transferred to the Offeror at the Cancellation Price immediately after the Scheme becoming effective.
- (E) In consideration of the cancellation and extinguishment of the Scheme Shares on the Effective Date, all Scheme Shareholders as appearing in the Register on the Record Date shall be entitled to receive HK\$6.8 in cash for every Scheme Share cancelled.
- (F) The Offeror has agreed to undertake to the High Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme.
- (G) The primary purpose of this Scheme is that on the Effective Date, all the Scheme Shares should be cancelled and extinguished, the New Shares created and issued to the Offeror, and that the Company will become wholly-owned by the Offeror upon the Shares owned by Mr. Lo Yuen Yat and Mr. Yeung Wai Kin being transferred to the Offeror.

SCHEME OF ARRANGEMENT

THE SCHEME OF ARRANGEMENT

PART I

CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon the said reduction of capital taking effect, the share capital of the Company shall be increased to its former amount by the creation of such number of new shares of the Company as is equal to the number of Scheme Shares cancelled; and
 - (c) the Company shall apply the credit arising in the Company's books of account as a result of the reduction of capital referred to in paragraph (a) above in paying up the new Shares so allotted and issued, credited as fully paid, to New Synergies Investments Company Limited.

PART II

CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares pursuant to paragraph 1(a) of this Scheme, the Offeror will pay or cause to be paid to each Scheme Shareholder as appearing in the Register on the Record Date, HK\$6.8 for every Scheme Share cancelled.

PART III

GENERAL

3.
 - (a) Not later than seven business days (as defined in the Takeovers Code) after the Effective Date, the Offeror shall send or cause to be sent to the Scheme Shareholders (as appearing in the Register on the Record Date) cheques in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2 of this Scheme.
 - (b) Unless indicated otherwise in writing before the Effective Date to the share registrar of the Company in Hong Kong (being Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road

SCHEME OF ARRANGEMENT

East, Wan Chai, Hong Kong), all such cheques shall be sent through the post (by airmail where appropriate) in pre-paid envelopes addressed to the persons entitled thereto:

- (i) in the case of sole holders, to the respective registered addresses of such holders as appearing in the Register as at the Record Time; and
 - (ii) in the case of joint holders, to the registered address of that one of the joint holders whose name then stands first in the Register in respect of the relevant joint holding.
- (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the moneys represented thereby.
- (d) All cheques shall be posted at the risk of the addressees and once posted, none of the Company, the Offeror and their respective officers or agents shall be liable for any loss or delay in transmission.
- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme, the Offeror shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and shall place all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Offeror. The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to paragraph 2 of this Scheme, together with interest thereon, to persons who satisfy the Offeror that they are respectively entitled thereto, provided that the cheques referred to in paragraph 3(b) of this Scheme of which they are payees have not been cashed. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
- (f) On the expiry of six years from the Effective Date, the Offeror (or any successor company thereto) shall be released from any further obligations to make any payments under this Scheme and the Offeror shall thereafter retain the balance (if any) of the sums standing to the credit of the account referred

SCHEME OF ARRANGEMENT

to in paragraph 3(e) of this Scheme, including accrued interest (if any) subject, if applicable, to the deduction of interest or any withholding or other tax or any other deductions required by law and subject also to the deduction of any expenses.

(g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.

4. As from and including the Effective Date:

(a) all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of the Company, to deliver up such certificates to the Company or to any person appointed by the Company to receive the same for cancellation;

(b) all instruments of transfer validly subsisting on the Record Date in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and

(c) all mandates or other instructions to the Company in force on the Record Date in relation to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.

5. This Scheme shall become effective as soon as an office copy of the order of the High Court sanctioning this Scheme and confirming, under Section 229 of the Companies Ordinance, the reduction of capital provided for by this Scheme of Arrangement, together with a minute and a return relating to the reduction of capital of the Company containing the particulars required by Section 230 of the Companies Ordinance, shall have been registered by the Registrar of Companies in Hong Kong.

6. The Company and the Offeror may jointly consent for and on behalf of all parties concerned to any modification(s) of or addition(s) to this Scheme or to any condition(s) which the High Court may see fit to approve or impose without any further court meeting to be held therefor.

7. Irrespective of whether this Scheme will become effective, the Company will bear its own expenses incurred in connection with this Scheme.

28 September 2017

NOTICE OF COURT MEETING

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 1875 OF 2017
IN THE MATTER
OF
CHINA ASSETS (HOLDINGS) LIMITED
AND
IN THE MATTER
OF
THE COMPANIES ORDINANCE,
CHAPTER 622 OF THE LAWS OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION
SCHEME OF ARRANGEMENT
Under Section 673 of the Companies Ordinance
Chapter 622 of the Laws of Hong Kong Special Administrative Region**

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 21 September 2017 (the “**Order**”) made in the above matters, the High Court of the Hong Kong Special Administrative Region (the “**High Court**”) has directed a meeting (the “**Meeting**”) to be convened of the registered holders of the shares (the “**Shares**”) of the Company (other than those beneficially owned by New Synergies Investments Company Limited and parties acting in concert with it) (the “**Scheme Shares**”) for the purposes of considering and, if thought fit, approving, with or without modification, a scheme of arrangement (the “**Scheme**”) proposed to be made between China Assets (Holdings) Limited (the “**Company**”) and the registered holders of the Scheme Shares (the “**Scheme Shareholders**”), and that the Meeting will be held at 10:00 a.m. on Wednesday, 25 October 2017 at United Conference Centre (Room 1), 10/F., United Centre, 95 Queensway, Hong Kong at which place and time all Scheme Shareholders are requested to attend.

A copy of the Scheme and a copy of an explanatory statement (the “**Explanatory Statement**”) explaining the effect of the Scheme, required to be furnished pursuant to Section 671 of the abovementioned Ordinance, are incorporated in the scheme document of which this Notice forms part, which has been despatched by post to holders of the Scheme Shares. Copies are also available at <http://www.chinaassets.com>.

In compliance with the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”), Shares held by New Synergies Investments Company Limited and parties acting in concert (as defined in the Takeovers Code) with it may not be voted at the Meeting and, hence, only Shares held by Scheme Shareholders are eligible for voting thereat.

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The above-mentioned Scheme Shareholders may vote in person at the Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed with the scheme document despatched to the Shareholders on 28 September 2017.

In the case of joint holders of a Share, the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the Share.

It is requested that forms appointing proxies, together with power of attorney under which they are signed (if any) or a notarially certified copy thereof (in the case of a corporation either under its seal or under the hand of an officer or attorney duly authorised) if any, be lodged at the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 10:00 a.m. on Monday, 23 October 2017. Forms of proxy may also be handed to the chairman of the Meeting at the Meeting if not so lodged.

Completion and return of the form of proxy will not preclude a Scheme Shareholder from attending the Meeting or any adjournment thereof and voting in person. In such event, his form of proxy shall be deemed to be revoked.

For the purpose of determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Wednesday, 18 October 2017 to Wednesday, 25 October 2017, both days inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017.

By the Order, the High Court has appointed Mr. Fan Jia Yan, or failing him, Dr. David William Maguire, or any other available director of the Company to act as chairman of the Meeting and has directed the chairman of the Meeting to report the outcome thereof to the High Court.

NOTICE OF COURT MEETING

The Scheme will be subject to the subsequent sanction of the High Court as set out in the Explanatory Statement contained in the scheme document despatched to the Shareholders on 28 September 2017.

Dated the 28th day of September 2017.

Reed Smith Richards Butler

20th Floor
Alexandra House
18 Chater Road
Central, Hong Kong

Solicitors for China Assets (Holdings) Limited

As at the date of this notice, the executive directors of the Company are Mr. Lo Yuen Yat and Mr. Cheng Sai Wai; the non-executive directors are Mr. Yeung Wai Kin, Mr. Zhao Yu Qiao and Ms. Lao Yuan Yuan; and the independent non-executive directors are Mr. Fan Jia Yan, Mr. Wu Ming Yu and Dr. David William Maguire.

NOTICE OF EGM

CHINA ASSETS (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 170)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of the abovenamed company (the “**Company**”) will be held at 10:30 a.m. (or if later immediately after the conclusion or adjournment of the meeting of the registered holders of the shares of the Company (other than those beneficially owned by New Synergies Investments Company Limited and parties acting in concert with it) (the “**Scheme Shares**”) convened at the direction of the High Court of Hong Kong Special Administrative Region for the same day and place) on Wednesday, 25 October 2017 at United Conference Centre (Room 1), 10/F., United Centre, 95 Queensway, Hong Kong for the purpose of considering and, if thought fit, passing, the following as a special resolution:

SPECIAL RESOLUTION

“THAT:

- (A) the proposed scheme of arrangement (the “**Scheme**”) between the Company and the registered holders of the Scheme Shares (the “**Scheme Shareholders**”), in the form of the print thereof which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved by the High Court of the Hong Kong Special Administrative Region, be and is hereby approved;
- (B) for the purposes of giving effect to the Scheme, on the date on which the Scheme becomes effective in accordance with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**Effective Date**”):
 - (i) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (ii) subject to and forthwith upon the said reduction of capital taking effect, the share capital of the Company shall be increased to its former amount by the creation of such number of new shares of the Company (the “**New Shares**”) as is equal to the number of Scheme Shares cancelled; and
 - (iii) the Company shall apply the credit arising in the Company’s books of account as a result of the said reduction of capital in paying up the New Shares which shall be allotted and issued, credited as fully paid, to New Synergies Investments Company Limited (the “**Offeror**”);

NOTICE OF EGM

- (C) the directors of the Company be and are hereby authorised to make application to The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the withdrawal of the listing of the Company’s shares on the Stock Exchange, subject to the Scheme taking effect; and
- (D) the directors of the Company be and are hereby unconditionally authorised to allot and issue the shares referred to in paragraph (B)(iii) above and to do all other acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme and the reduction of capital, including (without limitation) the giving, on behalf of the Company, of consent to any modifications of, or additions to, the Scheme, which the High Court may see fit to impose and to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme and in relation to the proposal for the privatisation of the Company by the Offeror by way of the Scheme as a whole.”

Yours faithfully,
By order of the Board
Lo Yuen Yat
Chairman

Hong Kong, 28 September 2017

Notes:

- (i) At the Meeting, the above resolution will be voted on by way of poll.
- (ii) A white form of proxy for use at the Meeting is enclosed with the scheme document.
- (iii) A member entitled to attend and vote at the Meeting is entitled to appoint another person, whether a member of the Company or not, as his proxy to attend and vote instead of him.
- (iv) In order to be valid, the white form of proxy, together with power of attorney under which it is signed (if any) or a notarially certified copy thereof (in the case of a corporation, either under seal or under the hand of an officer or attorney duly authorised) if any, must be lodged at the Company’s share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong by 10:30 a.m. on Monday, 23 October 2017. Completion and return of the white form of proxy will not preclude a member from attending the Meeting or any adjournment thereof and voting in person. In such event, his form of proxy shall be deemed to be revoked.
- (v) In the case of joint holders of a Share, the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the share.

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- (vi) For the purpose of determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Wednesday, 18 October 2017 to Wednesday, 25 October 2017, both days inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Tuesday, 17 October 2017.
- (vii) If a tropical cyclone warning signal No.8 or above is or is expected to be hoisted or a black rainstorm warning signal is or is expected to be in force at any time after 7:00 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will post an announcement on the respective websites of the Hong Kong Exchanges and Clearing Limited and the Company to notify members of the date, time and venue of the rescheduled meeting.

As at the date of this notice, the executive directors of the Company are Mr. Lo Yuen Yat and Mr. Cheng Sai Wai; the non-executive directors are Mr. Yeung Wai Kin, Mr. Zhao Yu Qiao and Ms. Lao Yuan Yuan; and the independent non-executive directors are Mr. Fan Jia Yan, Mr. Wu Ming Yu and Dr. David William Maguire.