CIRCULAR DATED 24 JULY 2013

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY IN ITS ENTIRETY.

IF YOU ARE IN ANY DOUBT ABOUT THIS CIRCULAR OR THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT, TAX ADVISER OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

Unless otherwise stated, the capitalised terms on this cover are defined in this Circular (as defined herein) under the section titled "DEFINITIONS".

The Singapore Exchange Securities Trading Limited ("SGX-ST") assumes no responsibility for the contents of this Circular, including the correctness of any of the statements made, reports contained or opinions expressed in this Circular.

If you have sold or transferred all your shares in the capital of the China International Holdings Limited (the "**Company**"), you should immediately forward this Circular, the Notice of Special General Meeting and the attached Proxy Form immediately to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

YOUR ATTENTION IS DRAWN TO THE SECTION ENTITLED "RISK FACTORS" ON PAGES 33 TO 42 OF THIS CIRCULAR WHICH YOU SHOULD REVIEW CAREFULLY.

CIH

CHINA INTERNATIONAL HOLDINGS LIMITED

(Registration Number 23356)
(Incorporated in Bermuda)

CIRCULAR TO SHAREHOLDERS

in relation to: -

THE PROPOSED ACQUISITION OF 55% EQUITY INTEREST OF YICHANG XINSHOUGANG PROPERTY DEVELOPMENT COMPANY LIMITED FROM CHINA RESOURCES AND TRANSPORTATION GROUP LIMITED FOR A PURCHASE CONSIDERATION OF HK$550,000,000

Financial Adviser to the Company

Daiwa
Capital Markets

Daiwa Capital Markets Singapore Limited

(Incorporated in Singapore)
(Company Registration No. : 197200705R)

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form	:	10 August at 9.30 a.m.
Date and time of Special General Meeting	:	12 August 2013 at 9.30 a.m.
Place of Special General Meeting	:	Marquis Room, Level 2, Copthorne King's Hotel, 403 Havelock Road, Singapore 169632

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS	:	Shan Chang (Non-Executive Chairman) Fong Weng Khiang (Independent Deputy Chairman) Zhang Rong Xiang (Managing Director) Zhu Jun (Executive Director) Chee Teck Kwong Patrick (Independent Director) Shen Xia (Executive Director)
COMPANY SECRETARIES	:	Ms Yange Han Ms Teo Kwee Yee
REGISTERED OFFICE	:	Clarendon House, 2 Church Street Hamilton HM11, Bermuda
SHARE REGISTRAR	:	Codan Services Limited Clarendon House, 2 Church Street Hamilton HM 11 Bermuda
SHARE TRANSFER AGENT	:	Boardroom ,Corporate & Advisory Services Pte Ltd 50 Raffles Place, #32-01 Singapore Land Tower Singapore 048623
FINANCIAL ADVISER TO THE COMPANY IN RELATION TO THE PROPOSED ACQUISITION	:	Daiwa Capital Markets Singapore Limited 6 Shenton Way #26-08 Tower Two Singapore 068809
LEGAL ADVISER TO THE COMPANY AS TO SINGAPORE LAW	:	Harry Elias Partnership LLP 4 Shenton Way SGX Centre 2 #17-01 Singapore 068807
LEGAL ADVISER TO THE COMPANY AS TO PRC LAW	:	Chang An Law Firm (长安律师事务所) Floor 14, China Inspection and Quarantine Building Tian Shui Yuan Street No. 6 Zhao Yang District, Beijing, PRC
INDEPENDENT AND REPORTING AUDITOR TO THE COMPANY	:	Nexia TS Public Accounting Corporation Public Accountants and Chartered Accountants 100 Beach Road Shaw Tower, #30-00 Singapore 189702 Director-in-charge: Philip Tan Jing Choon
INDEPENDENT VALUER	:	Roma Appraisals Limited Unit 3806, 38/F., China Resources Building 26 Harbour Road Wan Chai, Hong Kong

PRC AUDITOR OF THE TARGET GROUP FOR FY2010 AND FY2011	:	Hubei Huahai Accounting Co. Ltd（湖北华海会计师事务有限公司） 18B Sheng Shi Tian Di, Huan Cheng Dong Street, Yichang City, Hubei Province, PRC Accountants in-charge: Wang Jianping, Dai Xianrong
PRC AUDITOR OF THE TARGET GROUP FOR FY2012	:	Hubei Huashen Accounting Co. Ltd（湖北华审会计师事务有限公司） 17 Sixin Road, Yichang City, Hubei Province, PRC Accountants in-charge: Luo Kerong, Liu Bing

In this Circular, except where the context otherwise requires, the following terms and expressions shall have the following meanings:-

Entities in relation to the Proposed Acquisition

"Beijing Shoukong"	:	Shoukong (Beijing) Management Consulting Company Limited (首控（北京）管理咨询有限公司), a company established in the PRC
"CIH Group"	:	The Company, its Subsidiaries and associated companies, prior to the completion of the Proposed Acquisition
"Company"	:	China International Holdings Limited
"Enlarged Group"	:	The CIH Group and the Target Group, following the completion of the Proposed Acquisition
"Shenzhen Shuren"	:	Shuren Wood (Shenzhen) Company Limited (树人木业(深圳)有限公司), a company established in the PRC
"Target Company"	:	Yichang Xinshougang Property Development Company Limited (宜昌新首钢房地产开发有限公司)
"Target Group"	:	Target Company and its 70% subsidiary, ZX Property Management
"Triumph Kind"	:	Triumph Kind Investment Limited（凯恩投资有限公司）
"Triumph Kind Group"	:	Triumph Kind Investment Limited, Beijing Shoukong and the Target Group
"Vendor"	:	China Resources and Transportation Group Limited
"ZX Property Management"	:	Yichang Zhong Xiang Property Management Company Limited (宜昌中翔物业管理有限公司）

Other Companies, Organisations and Agencies

"CDP"	:	The Central Depository (Pte) Limited
"Dafang"	:	Hubei Dafang Properties Development Company Limited
"Financial Adviser"	:	Daiwa Capital Markets Singapore Limited, the financial adviser to the Company in respect of the Proposed Acquisition
"HKSE"	:	Stock Exchange of Hong Kong Limited
"Guangsha"	:	Guangsha Hubei Sixth Construction Engineering Company Limited
"PRC Counsel"	:	Chang An Law Firm (长安律师事务所)
"SGX-ST"	:	Singapore Exchange Securities Trading Limited
"Tianjin CIH"	:	Has the meaning ascribed to it in section 4.1

General

"Act"	:	Companies Act, (Chapter 50) of the laws of Singapore as amended or modified from time to time
"Area 1"	:	Area 1 of Phase I of the Project, occupying a site area of 90,506 square metres, with a total GFA of approximately 40,409 square metres, consisting of 108 low-rise residential units
"Area 2"	:	Area 2 of Phase I of the Project, occupying a site area of 81,159 square metres, with a total GFA of approximately 28,581 square metres, at final design and approval stage
"Area 3"	:	Area 3 of Phase I of the Project, occupying a site area of 18,524 square metres, with a total GFA of approximately 76,943 square metres, consisting of 462 high-rise apartments, 43 commercial property units and 290 basement car park lots
"Board"	:	The board of Directors of the Company from time to time
"CIHL Share Option Scheme"	:	The share option scheme adopted by the Company on 8 March 2010
"Company Law"	:	Has the meaning ascribed to it in section 1.3 of Appendix B to this Circular
"Completion Date"	:	15 September 2013 or such other date as the Company and the Vendor may mutually agree in writing
"Conditional STA"	:	The conditional share transfer agreement entered into between the Company and China Resources and Transportation Group Limited on 15 September 2012 in relation to the acquisition of 55% of the issued and paid-up shares capital of Triumph Kind Investment Limited
"Consideration"	:	Has the meaning ascribed to it in section 2.2
"Dafang Contracts"	:	The joint development agreement (《项目合作开发协议书》) and the supplemental agreement (《补充协议》) thereto entered into between the Target Company and Dafang on 16 August 2010
"Directors"	:	The directors of the Company from time to time
"EPS"	:	Earnings per share
"Final Payment"	:	Has the meaning ascribed to it in section 2.2
"Final Payment Date"	:	15 October 2013 or such other date as the Company and the Vendor may mutually agree in writing
"FY"	:	The financial year ended or ending 31 December, as the case may be
"GFA"	:	Gross floor area

"Guangsha Contracts"	:	Means the following contracts: (a) construction installation commencement sub-contracting framework agreement (《建筑安装工程施工承包框架协议书》) entered into between the Target Company and Guangsha in 2010; (b) project first phase commencement contract (《项目一期一组团，三组团施工合同》) entered into between the Target Company and Guangsha on 26 July 2011; and (c) construction commencement contract (备案的《施工合同》) entered into between the Target Company and Guangsha on 20 January 2011
"Independent Valuer"	:	Roma Appraisals Limited
"Independent Valuer's Business Valuation Report"	:	The independent valuation report dated 16 July 2013 issued by the Independent Valuer in respect of the 100% equity interest in Yichang Xinshougang Property Development Company Limited as set out in Appendix F to this Circular
"Land Use Right Transfer Agreement"	:	The Contract for the Grant of State-owned Land Use Rights No. Yichang City Yiling District Yi Zeng Guo Rang (He) Zi (2006) Di 438 Hao entered into between the Target Company and the Yichang Yiling District Land Resources Bureau on 29 December 2006
"Latest Practicable Date"	:	The latest practicable date prior to the printing of this Circular, being 12 July 2013
"Listing Manual"	:	The listing manual of the Singapore Exchange Securities Trading Limited and its relevant rule(s), as amended and modified from time to time
"Long Stop Date"	:	15 October 2013 or such other date as the Company and the Vendor may mutually agree in writing
"Losses"	:	Means all losses, liabilities, fines, penalties, costs (including legal or arbitral costs, advisors', experts' and consultants' fees and costs of enforcement of any settlements, judgments or arbitral awards), charges, expenses, actions, proceedings, investigations, claims and demands
"Moratorium Period"	:	Has the meaning ascribed to it in section 8
"Moratorium Shares"	:	Has the meaning ascribed to it in section 8
"NTA"	:	Net asset value
"Phase I"		Phase I of the Project, which includes the development of high and low rise residential properties, commercial properties (in Area 1, Area 2 and Area 3), and the Yichang Convention Centre, occupies a site area of approximately 219,491 square metres, with a total GFA of approximately 208,445 square metres

"Phase II"	:	Phase II of the Project, which includes the development of high and low rise residential properties, and commercial properties, occupies a site area of 122,874 square metres, with a total GFA of approximately 231,666 square metres
"Phase III"	:	Phase III of the Project, which includes the development of high and low rise residential properties, commercial properties, and the Yichang Hotel, occupies a site area of 245,361 square metres, with a total GFA of approximately 337,659 square metres
"PRC Government"	:	The Central People's Government of the People's Republic of China
"Project"	:	Has the meaning ascribed to it in section 2.1 of this Circular
"Project Land"	:	Has the meaning ascribed to it in section 2.1 of this Circular
"Property Management Rules"	:	Has the meaning ascribed to it in section 7 of Appendix B to this Circular
"Proposed Acquisition"	:	The proposed acquisition of the Target Equity Interest pursuant to the terms and conditions of the Sale and Purchase Agreement
"Proposed Disposal"	:	Means: (i) the transfer by the Shenzhen Company to Beijing Shoukong of shareholder's loans amounting to RMB186 million made from the Shenzhen Company to the Target Company (ii) the transfer by the Shenzhen Company to the Triumph Kind of all the equity interest in Beijing Shoukong; and (iii) the transfer or disposal of all other businesses, assets, liabilities and undertakings of Triumph Kind and Beijing Shoukong, all at such consideration as the Vendor may in its absolute discretion determine, such that upon completion of the above transfers and disposals, the Target Company shall be wholly-owned by Beijing Shoukong, which in turn shall be wholly-owned by Triumph Kind, and the sole asset and business of Beijing Shoukong shall be the 100% equity interest in the Target Company and the Shareholder's Loans, whilst the sole asset and business of Triumph Kind shall be the 100% equity interest in Beijing Shoukong
"Refundable Deposit"	:	Has the meaning ascribed to it in section 2.2
"Sale and Purchase Agreement"	:	The Conditional STA and the Supplemental STA, read together
"Second Tranche Payment"	:	Has the meaning ascribed to it in section 2.2
"SFA"	:	Securities and Futures Act (Cap 289) of Singapore

"SGXNET"	:	A system network used by listed companies to send information and announcements to the SGX-ST or any other system networks prescribed by the SGX-ST
"SGM"	:	The special general meeting to be held on 12 August 2013 at 9.30 a.m. at Marquis Room, Level 2 Copthorne King's Hotel, 403 Havelock Road, Singapore 169632, notice of which is set out on pages SGM-1 to SGM-2 of this Circular
"Shareholders' Agreement"	:	Has the meaning ascribed to it in Section 2.6.4
"Shareholder's Loan"	:	The shareholder's loan that have been extended by the Vendor and/or its subsidiaries to Target Company from time to time, of approximately RMB86,267,265.99, as at the Latest Practicable Date
"substantial shareholder"	:	A person who has an interest or interests in one or more voting Shares in the Company and the total votes attached to that Share, or those Shares, is not less than 5% of the total votes attached to all the voting Shares of the Company
"Supplemental Land Use Right Transfer Agreement"	:	Has the meaning ascribed to it in Section 6.1 of Appendix A to this Circular;
"Supplemental STA"	:	The supplemental agreement entered into between the Vendor and the Company on 19 July 2013, in relation to the modification to the terms and conditions of the Conditional STA
"Target Equity Interest"	:	55% equity interest in the Target Company
"Target Group Board Changes"	:	Has the meaning ascribed to it in section 2.1
"Termination Agreements"	:	Has the meaning ascribed to it in section 15.2 of Appendix A to this Circular
"Tianjin Land"	:	Has the meaning ascribed to it in section 4.1
"Urban Real Estate Law"	:	Has the meaning ascribed to it in section 2.3 of Appendix B to this Circular
"Vendor's Acquisition"	:	Has the meaning ascribed to it in section 1.2
"Vendor's Warranties"	:	The warranties provided by the Vendor as set out in the Sale and Purchase Agreement
"WFOE"	**:**	Has the meaning ascribed to it in section 1.3 of Appendix B to this Circular
"Yichang City Planning"	:	Has the meaning ascribed to it in section 4.3
"Yichang Commercial/" Residential Property	**:**	The residential and commercial properties being and to be developed on the Project Land, being developed in phases under Phase I, Phase II and Phase III of the Project
"Yichang Convention Centre"	:	The Yichang Three Gorges International Convention Centre （宜昌三峡国际会展中心）being developed under Phase I of the Project, with a total GFA of approximately 62,511 square metres

"Yichang Hotel"	:	The Three Gorges State Guest House（宜昌三峡国宾馆）to be developed under Phase III of the Project, with a total GFA of approximately 48,515 square metres

<u>Countries, Currencies, Units of Measurement and Others</u>

"PRC"	:	The People's Republic of China, excluding Hong Kong, Macau and Taiwan, for the purpose of this Circular and for geographical reference only
"HK$ and cents"	:	Hong Kong dollar and cents, the lawful currency of the Special Administrative Region of Hong Kong
"RMB"	:	Renminbi, the lawful currency of the PRC
"$ or S$ and cents"	:	Singapore dollar and cents, the lawful currency of the Republic of Singapore
"%"	:	Per centum or percentage

The terms Depositor, Depository Agent and Depository Register shall have the same meanings ascribed to them respectively in Section 130A of the Companies Act.

Certain names with Chinese characters have been translated into English names. Such translations are provided solely for the convenience of investors and may not have been registered with the relevant PRC or Hong Kong authorities and as such, should not be construed as representations that the English names actually represent Chinese characters.

The term "subsidiary" shall have the meaning ascribed to it by Section 5 of the Companies Act. The terms "controlling shareholder", "associate" and "associated company" shall have the meanings ascribed to them respectively in the section headed "Definitions and Interpretation" of the Listing Manual.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. References to persons shall include corporations.

Any reference in this Circular to Rule or Chapter is a reference to the relevant rule or chapter in Listing Manual as for the time being amended.

Any reference in this Circular to any statute, enactment or the Listing Manual is a reference to that statute, enactment or Listing Manual as for the time being amended or re-enacted. Any word defined under the Companies Act, the SFA or the Listing Manual or any statutory modification thereof and used in this Circular shall, where applicable, have the meaning ascribed to it under the Companies Act, the SFA or the Listing Manual or any statutory modification thereof as the case may be, unless the context requires otherwise.

Any reference to any agreement or document shall include such agreement or document as amended, modified, varied, novated, supplemented or replaced from time to time.

Any reference in this Circular to Shares being allotted to a person includes allotment to CDP for the account of that person.

Any reference to a time of day in this Circular shall be a reference to Singapore time, unless otherwise stated.

Any discrepancies in figures included in this Circular between the amounts listed and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Circular may not be an arithmetic aggregation of the figures which precede them.

Exchange Rate between RMB and Singapore Dollar

The table below sets forth the high and low exchange rates between RMB and Singapore Dollar from 2010 and for each month for the six (6) calendar months prior to the Latest Practicable Date. The table indicates the amount of RMB required to purchase one Singapore Dollar.

	RMB/S$ exchange rate[1]	
Period ended	**High**	**Low**
2010	0.2091	0.1921
2011	0.2075	0.1863
2012	0.2063	0.1928
January 2013	0.1993	0.1956
February 2013	0.1998	0.1978
March 2013	0.2021	0.1988
April 2013	0.2013	0.1992
May 2013	0.2079	0.1996
June 2013	0.2087	0.2022
July 2013 (up to Latest Practicable Date)	0.2095	0.2052

As at the Latest Practicable Date, the exchange rate between RMB and Singapore Dollar was RMB1 to S$0.2056.

Solely for convenience, certain RMB amounts in this Circular have been converted into Singapore dollars, based on the exchange rate of RMB1 = S$0.2056, as at Latest Practicable Date.

No representation is made that the RMB amounts could have been, or could be converted into Singapore dollars at that rate or at any other certain rate on the Latest Practicable Date or any other certain date, or at all, and vice versa. The exchange rates set out below are historical rates for illustrative purposes only and no representation is made regarding any trends in exchange rates.

The above exchange rates (RMB against Singapore Dollar) have been extracted from published information by Bloomberg L.P.

Exchange Rate between the Hong Kong Dollar and the Singapore Dollar

The table below sets forth the high and low exchange rates between the Hong Kong Dollar and the Singapore Dollar from 2010 and for each month for the six (6) calendar months prior to the Latest Practicable Date. The table indicates the amount of Hong Kong Dollar required to purchase one Singapore Dollar.

	HK$/S$ exchange rate	
Period ended	**High**	**Low**
2010	0.1836	0.1646
2011	0.1695	0.1540
2012	0.1675	0.1568
January 2013	0.1599	0.1573
February 2013	0.1606	0.1591
March 2013	0.1615	0.1595
April 2013	0.1602	0.1586
May 2013	0.1639	0.1581
June 2013	0.1653	0.1598
July 2013 (up to Latest Practicable Date)	0.1658	0.1622

EXCHANGE RATE

As at the Latest Practicable Date, the exchange rate between the Hong Kong Dollar and the Singapore Dollar was HK$1 to S$0.1627.

Unless otherwise indicated, solely for convenience, certain Hong Kong dollar amounts in this Circular have been converted into Singapore dollars, based on the exchange rate of HK$1 = S$0.1627 as at Latest Practicable Date.

No representation is made that the Hong Kong dollar amounts could have been, or could be converted into Singapore dollars at that rate or at any other certain rate on the Latest Practicable Date or any other certain date, or at all, and vice versa. The exchange rates set out below are historical rates for illustrative purposes only and no representation is made regarding any trends in exchange rates.

The above exchange rates (Hong Kong dollar against Singapore Dollar) have been extracted from published information by Bloomberg L.P.

Note:

(1) Source: Bloomberg L.P.
Bloomberg L.P. has not provided its consent. The Company has included the above information in its proper form and context in this Circular and has not verified the accuracy of the above information.

All statements contained in this Circular, statements made in the press releases, announcements and oral statements that may be made by the Company, the Vendor, the Target Group or their respective related corporations, directors or executives or employees acting on their behalf that are not statements of historical fact constitute "forward-looking statements". Some of these statements can be identified by words that are biased or by forward-looking terms such as "expect", "forecast", "if", "possible", "probable", "project", "believe", "plan", "intend", "estimate", "anticipate", "may", "will", "would", "could" and "should" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Company's, the Group's, the Target Company's, the Target Group's and the Enlarged Group's expected financial position and performance, business strategy, plans and prospects are forward-looking statements. These forward-looking statements, including (but are not limited to) statements as to the Company's, the Group's, the Target Company's, the Target Group's and the Enlarged Group's revenue and profitability, cost measures, expected industry trends, prospects, future plans, planned strategy and other matters discussed in this Circular regarding matters that are not historical facts, are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's, the Group's, the Target Company's, the Target Group's and the Enlarged Group's actual future results, performance or achievements to be materially different from any future results, performance or achievements expected, expressed or implied by such forward-looking statements. These risks, uncertainties and other factors are discussed in more detail in this Circular, in particular, but not limited to, discussions under Section 5 entitled "Risk Factors" of this Circular.

Given the risks and uncertainties that may cause the Company's, the Group's, the Target Company's, the Target Group's and the Enlarged Group's actual future results, performance or achievements to be materially different than that expected, expressed or implied by the forward-looking statements and financial information set out in this Circular, you are advised not to place undue reliance on such statements and information. None of the Company, the Vendor, the Target Group, the Financial Adviser, their respective related corporations, directors, executives and employees or any other person represents or warrants that the Company's, the Group's, the Target Company's, the Target Group's and the Enlarged Group's actual future results, performance or achievements will be as discussed in those statements and financial information. The Company's, the Group's, the Target Company's, the Target Group's and the Enlarged Group's actual future results may differ materially from those anticipated in these forward-looking statements as a result of, inter alia, the risks and uncertainties faced by the Company, the Group, the Target Company, the Target Group and the Enlarged Group. Further, the Company, the Vendor, the Target Company, the Financial Adviser and their respective related corporations, directors, executives and employees disclaim any responsibility to update any of those forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances for any reason, even if new information becomes available or other events occur in the future, subject to compliance with any applicable laws and regulations and/or rules of the SGX-ST and/or any regulatory or supervisory body or agency.

This Circular may include market and industry data and information that have been obtained from, inter alia, internal studies and publicly available information such as government statistical and industry reports, and industry publications. Please note that such information is supplied to you for your personal use only. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but the accuracy and completeness of that information is not guaranteed, and may contain other disclaimers in relation to reliance on their contents. There can therefore be no assurance as to the accuracy or completeness of such information. While reasonable steps have been taken to ensure that the information is extracted accurately, the Company, the Vendor, the Target Group and the Financial Adviser and their respective related corporations, directors, executives and employees have not independently verified any of the data from third party sources or ascertained the underlying bases or assumptions relied upon therein, nor have the consents of these sources been obtained for the inclusion of such data or information in this Circular.

CHINA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda)
(Company Registration Number 23356)

Board of Directors:	Registered Office:
Mr. Shan Chang (Non-Executive Chairman)	Clarendon House
Mr. Fong Weng Khiang (Independent Deputy Chairman)	2 Church Street
Mr. Zhang Rong Xiang (Managing Director)	Hamilton HM 11
Mr. Zhu Jun (Executive Director)	Bermuda
Mr. Chee Teck Kwong Patrick (Independent Director)	
Mr. Shen Xia (Executive Director)	

24 July 2013

TO: THE SHAREHOLDERS OF CHINA INTERNATIONAL HOLDINGS LIMITED

Dear Sir/Madam:-

THE PROPOSED ACQUISITION OF 55% EQUITY INTEREST OF YICHANG XINSHOUGANG PROPERTY DEVELOPMENT COMPANY FROM CHINA RESOURCES AND TRANSPORTATION GROUP LIMITED FOR A PURCHASE CONSIDERATION OF HK$550,000,000

1. INTRODUCTION

1.1 Purpose of this Circular

The purpose of this Circular is to provide Shareholders with the relevant information in relation to the Proposed Acquisition, and to seek Shareholders' approval for the resolutions relating to the Proposed Acquisition. Approval for the Proposed Acquisition will be sought by way of ordinary resolutions at the forthcoming SGM. The notice of the SGM is set out on page SGM-1 of this Circular.

This Circular has been prepared solely for the purposes set out herein and may not be relied upon by any persons (other than Shareholders to whom this Circular is despatched to by the Company) or for any other purpose.

1.2 Background

The Vendor is a company listed on HKSE (stock code: 269) and is principally engaged in expressway and auxiliary facility investment, expressway operation, management and maintenance, property development and asset management, forest operation and management, timber logging and trading, sale of timber products, plantation and trading of seedlings, and cold storage warehouse rental.

In 2010, the Vendor acquired the entire equity interest of Beijing Shoukong together with the entire equity interest in the Target Company (being a wholly owned subsidiary of Beijing Shoukong) from China Alliance International Holding Group Limited, a company incorporated in Hong Kong with limited liability, for an aggregate consideration of HK$986 million (equivalent to approximately S$160.4 million) (the "**Vendor's Acquisition**"). The Vendor's Acquisition was approved by the shareholders of the Vendor at the Vendor's shareholders' meeting held on 12 January 2010, and the Vendor's acquisition was completed on 9 February 2010, whereupon Beijing Shoukong and the Target Company became wholly owned subsidiaries of the Vendor.

The Company has been interested in entering the property market in Yichang City, PRC for some time. The Company has done research on the property market of Yichang City, and was aware that the Vendor was developing the Project.

The Company and the Vendor are both engaged in land and property development and expressway development and management business sectors in the PRC. As such, the chairman of the Company and the chairman of the Vendor are acquainted with each other. The chairman of the Company first learnt of the Vendor's intention to dispose of the Target Company through casual discussions with the chairman of the Company around June 2012. Following the Company's assessment of the Project, the Company formed the view that an investment in the Project is in the best interest of the Company. Please refer to Section 4 of this Circular entitled "Rationale and Benefits of the Proposed Acquisition".

The Company then formally approached the Vendor directly to discuss the terms and conditions and finalise the details of the Proposed Acquisition. There was no introducer and no introduction fees were involved in relation to the Proposed Acquisition.

The Vendor intended to dispose of 100% interest in the Target Company to raise cash for its other operations. The Company, after evaluation of the CIH Group's financial capabilities to fund the Proposed Acquisition from internal resources and bank borrowings, had offered to purchase 55% interest in the Target Company. The Company is not aware of the reason why the Vendor is willing to keep minority interest in the Target Company after the Proposed Acquisition.

On 16 September 2012, the Company announced on SGXNET that, on 15 September 2012, the Company had entered into the Conditional STA with the Vendor in relation to the acquisition of 55% of the equity interest in Triumph Kind by the Company, in order to acquire 55% of the equity interest in the Target Company, subject to the completion of the Proposed Disposal. Under the Conditional STA, the Vendor would conduct restructuring on its subsidiaries to form the Triumph Kind Group to facilitate the acquisition.

On 2 January 2013, the Company announced on SGXNET that the Company and the Vendor had agreed to extend the completion date for the acquisition of 55% of the issued and paid-up share capital of Triumph Kind from 31 December 2012 to 31 March 2013 and the payment of the balance of the consideration from 31 March 2013 to 31 May 2013 as additional time was required for the fulfilment of the conditions precedent to the Sale and Purchase Agreement. Save for such extensions, all other terms and conditions of the Sale and Purchase Agreement will remain unchanged.

On 28 March 2013, the Company further announced on SGXNET that the Company and the Vendor had agreed to extend the completion date for the acquisition of 55% of the issued and paid-up share capital of Triumph Kind, from 31 March 2013 to 30 June 2013, and the payment of the balance of the consideration from 31 May 2013 to 31 July 2013 as additional time was required for the fulfilment of the conditions precedent to the Conditional STA. Save for such extensions, all other terms and conditions of the Conditional STA remain unchanged.

On 1 July 2013, the Company further announced on SGXNET that the Company and the Vendor had agreed to extend the completion date for the acquisition of 55% of the issued and paid-up share capital of Triumph Kind, from 30 June 2013 to 31 August 2013, and the payment of the balance of the consideration from 31 July 2013 to 30 September 2013 as additional time was required for the fulfilment of the conditions precedent to the Conditional STA. Save for such extensions, all other terms and conditions of the Conditional STA remain unchanged.

On 19 July 2013, the Company announced on SGXNET that it has entered into the Supplemental STA with the Vendor as a supplement to the Conditional STA. Pursuant to the Supplemental STA, the Vendor and the Company agreed, inter alia, to dispense with the Proposed Disposal and to instead, have the Company acquire the 55% direct equity interest in the Target Company and to extend the Completion Date from 31 August 2013 to 15 September 2013 and the payment of the balance consideration from 30 September 2013 to 15 October 2013. The salient terms of the Proposed Acquisition are set out in Section 2 below.

1.3 Very Substantial Acquisition

As disclosed in the Company announcement of 16 September 2012, and based on the audited financial statement of the Company for FY2011, the relative figures applicable to the Proposed Acquisition computed on the bases pursuant to Rule 1006 of the Listing Manual are as follows:

Rule 1006 of the Listing Manual	Bases	Relative Figures (%)
(a)	The net asset value of the assets to be disposed of compared with the Group's net asset value. This basis is not applicable to an acquisition of assets.	Not applicable
(b)	The net profits attributable to the assets acquired, compared with the Group's net profits.	-4,844%[(1)]
(c)	The aggregate value of the consideration given[(2)], compared with the Company's market capitalisation[(3)] based on the total number of issued shares excluding treasury shares.	248%
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable[(4)]

Notes:

(1) In FY2011, the Target Group recorded a loss of approximately RMB11,889,000. The audited net loss attributable to the CIH Group for FY2011 of approximately RMB6,538,950 constitutes approximately -4,844% of the consolidated net profit of the Company for FY2011 of RMB135,000.

(2) The Consideration is HK$550,000,000, which is equivalent to approximately S$86,625,000 as calculated based on the HK$:S$ exchange rate of HK$1:S$0.1575.

(3) The Company's market capitalisation is approximately S$34,984,150. The Company's market capitalisation is determined by multiplying the number of Company's shares in issue 874,603,705 with the weighted average price of the Company's shares transacted on 14 September 2012 which is the market day preceding the date of the Conditional Sale and Purchase Agreement dated 15 September 2012, being S$0.04.

(4) No securities in the Company are proposed to be issued in consideration for the Proposed Acquisition.

As the relative figure under Rule 1006(c) exceeds 100%, and the Proposed Acquisition does not result in any change in control of the Company, the Proposed Acquisition constitutes a "very substantial acquisition" as defined in Chapter 10 of the Listing Manual.

On 25 September 2012, the Company had made an application to the SGX-ST for a waiver from compliance with Rule 1015 Listing Manual in relation to the Proposed Acquisition on grounds that (i) the Proposed Acquisition is in the ordinary course of business of the Company; (ii) there is no substantial effect on the risk profile of the Company; (iii) the staged payment structure allows the Company to maintain a healthy balance sheet with prudent leverage ratio; and (iv) there is no change of control of the Company. On 8 October 2012, the Company received a letter from the SGX-ST informing the Company that Rule 1015 of the Listing Manual is applicable to the Proposed Acquisition.

Furthermore, there is no understanding or agreement (written or otherwise) for the Vendor or the Target Group to gain control over the operations of the Company in relation to or pursuant to the Proposed Acquisition. Accordingly, the Proposed Acquisition is a very substantial acquisition under Rule 1015 of the Listing Manual, and is conditional upon the approval of the Shareholders and the approval of the SGX-ST.

There are no Shares to be issued as consideration for the Proposed Acquisition and no person is proposed to be appointed as an executive officer or a director of the Company in connection with the Proposed Acquisition. Accordingly, there will be no new substantial shareholder(s) arising, and also no change in control of the Company as a result of the Proposed Acquisition. The Proposed Acquisition is therefore not classified as a Reverse Takeover under Rule 1015 of the Listing Manual.

For illustrative purposes only, and based on the audited financial statement of the Company for FY2012 and the audited financial statements of the Target Group for FY2012, the relative figures applicable to the Proposed Acquisition computed on the bases pursuant to Rule 1006 of the Listing Manual are as follows:

Rule 1006 of the Listing Manual	**Bases**	**Relative Figures (%)**
(a)	The net asset value of the assets to be disposed of compared with the Group's net asset value. This basis is not applicable to an acquisition of assets.	Not applicable
(b)	The net profits attributable to the assets acquired, compared with the Group's net profits for FY2012.	257%(1)
(c)	The aggregate value of the consideration given(2), compared with the Company's market capitalisation(3) based on the total number of issued shares excluding treasury shares.	248%
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable(4)

Notes:

(1) In FY2012, the Target Group was able to generate profits of approximately RMB37,778,000. The audited net profit attributable to the CIH Group for FY2012 of RMB20,777,900 constitutes approximately 257% of the consolidated net profit of the Company for FY2012 of RMB8,088,000.

(2) The Consideration is HK$550,000,000 (equivalent to S$89,485,000) as calculated based on the HK$:S$ exchange rate of HK$1:S$0.1627 as at the Latest Practicable Date.

(3) The Company's market capitalisation is approximately S$34,984,150. The Company's market capitalisation is determined by multiplying the number of Company's shares in issue 874,603,705 with the weighted average price of the Company's shares transacted on 14 September 2012 which is the market day preceding the date of the Conditional Sale and Purchase Agreement dated 15 September 2012, being S$0.04.

(4) No securities in the Company are proposed to be issued in consideration for the Proposed Acquisition.

1.4 IN-PRINCIPLE APPROVAL FROM THE SGX-ST

On 19 July 2013, the SGX-ST granted approval in-principle for the Proposed Acquisition subject to, inter alia, the following conditions:

(a) Compliance with the SGX-ST's listing requirements;

(b) Shareholders' approval being obtained for the Proposed Acquisition;

(c) The Proposed Acquisition will not result in a change in control of Company;

(d) Submission of the following:-

(i) a written confirmation from the Financial Adviser that the signed moratorium agreements with the relevant parties pursuant to Rule 227 of the SGX-ST Listing Manual (Listing Manual) are in accordance with the requirements of Rules 228 and 229 of the Listing Manual;

(ii) a written confirmation from the Financial Adviser that the Proposed Acquisition has complied with Rule 210(4)(a) of the Listing Manual;

(iii) a written undertaking from the Audit Committee of the Company that in the event any of the directors and/or controlling shareholders of the Target Company are appointed as CEO / director of the Company or becomes a controlling shareholder of the Company, the Audit Committee will review and resolve any potential conflicts of interests; and

(iv) a written undertaking from each of the Company's directors in the form prescribed by the SGX-ST.

It should be noted that approval in-principle granted by the SGX-ST to the Company as aforementioned is not to be taken as an indication of the merits of the Proposed Acquisition, the Company and/or its subsidiaries. The SGX-ST assumes no responsibility for the correctness or accuracy of any of the statements made, reports contained or opinions expressed in this Circular.

2. PRINCIPAL TERMS OF THE PROPOSED ACQUISITION

2.1 Key Terms of the Sale and Purchase Agreement

Pursuant to the terms of the Conditional STA, the Vendor's obligation to complete the Proposed Disposal was one of the conditions precedent to the Completion of the Proposed Acquisition.

The Vendor is also obliged to, inter alia, within 30 days of payment of deposit by the Company, to procure that the board of directors of each Triumph Kind Group company be constituted by 5 members such that 3 members of each respective board of directors would be nominated by the Company whilst 2 members of each respective board of Directors will be nominated by the Vendors (the "**Target Group Board Changes**").

On 25 March 2013, the Vendor procured the Original Shareholders' Loan to be reduced by RMB100 million from approximately RMB186 million to approximately RMB86 million, and the registered capital of the Target Company was correspondingly increased from RMB20 million to RMB120 million.

Pursuant to the Supplemental STA, the Vendor and the Company agreed, inter alia, to the following:

(i) dispense with the Proposed Disposal;

(ii) defer the Target Group Board Changes to take effect upon Completion;

(iii) the Company will directly acquire the Target Equity Interest (to be held through a wholly owned subsidiary of the Company incorporated in the PRC);

(iv) the assignment of 55% of the Shareholder's Loan to the Company (or a wholly owned subsidiary of the Company incorporated in the PRC); and

(v) Long Stop Date shall be deferred as 15 October 2013.

The original transaction structure envisages the proposed acquisition taking place at the holding company level, i.e. through the acquisition of Triumph Kind, a Hong Kong registered holding company holding various investments in the PRC (including the Vendor's investment in the Target Company), with the Vendor being responsible for taking away all the assets and liabilities not connected with Yichang Xinshougang Property Development Company Limited. The Conditional STA had also envisaged the proposed acquisition taking place at lower level along the chain of control under Triumph Kind so that transaction can take place directly at the Target Company level. Upon evaluation of the options, the decision to implement acquisition directly at the Target Company level is based on expediency considerations mutually agreeable to both the Vendor and the Company.

Pursuant to the terms of Sale and Purchase Agreement, the Company will acquire the 55% direct equity interest in the Target Company, free from all claims, pledges, mortgages, security, liens, options, rights of first refusal, pre-emptive rights, any other third party rights or security rights of any nature or any agreement, arrangement or obligation incurring any such right. In addition, 55% of the Shareholder's Loan will be assigned to the Company. The value of the 55% of the Shareholder's Loan assigned to the Company is approximately RMB47,446,996.29. There is no agreed maximum shareholders' loan amount between the Vendor and the Company, and the Company does not expect to provide further shareholders' loan after the Proposed Acquisition to fund future developments.

In deciding to make the Proposed Acquisition, the Company has prudently made a business judgment in assessing the potential returns of the Project for the Company and its Shareholders and taken into consideration financing requirements which it would need to undertake for the Proposed Acquisition, given its current financial status and fund raising abilities. The Company is of the view that a 55% shareholding stake is within its financial capabilities, while allowing it to have majority control over the Project. The remaining 45% of the direct equity interest in the Target Group will be held by the Vendor through a series of subsidiaries, in the same existing structure as described in Section 16 of Appendix A to this Circular entitled "The Vendor". The Company has no intention to acquire more of the remaining stake in the Target Group in the near future.

The Target Company is a limited company established in the PRC which holds the land use rights to a land parcel located in Meiziya Village, Xiaoxita, Yiling District, Yichang City, Hubei Province, the PRC （湖北省宜昌夷陵区小溪塔街道梅子垭村）with a total site area of 587,726 square metres ("**Project Land**").

On the Project Land, the Target Company is undertaking the development of commercial complexes and residential properties, comprising the Yichang Convention Centre, the Yichang Hotel, and the Yichang Commercial/Residential Property (collectively the "**Project**"). For more information on the development status of the Project, please refer to Section 6.3 of Appendix A to the Circular entitled "Development Plan and Status".

Further information on the Target Group, the Project Land and the Project are set out in Appendix A to this Circular.

2.2 Purchase Consideration

The total purchase consideration for the Proposed Acquisition is HK$550,000,000 (equivalent to S$89,485,000) ("**Consideration**"), being the aggregate purchase consideration payable by the Company for (i) the 55% equity interest in the Target Company, and (ii) the assignment of 55% the Shareholder's Loan pursuant to the Proposed Acquisition, to be fully satisfied by the Company in the following manner:

(a) a refundable deposit of HK$150,000,000 (equivalent to S$24,405,000) to be paid to the Vendor on or before the expiry of three (3) business days from the date of the Conditional STA ("**Refundable Deposit**");

(b) a sum of HK$200,000,000 (equivalent to S$32,540,000) to be paid to the Vendor at the Completion Date pursuant to the terms of the Conditional STA ("**Second Tranche Payment**"); and

(c) a sum of HK$200,000,000 (equivalent to S$32,540,000) to be paid to the Vendor on the Final Payment Date ("**Final Payment**").

The Refundable Deposit is refundable in full:

(a) within seven (7) Business Days free of interest in the event:

(i) The Conditional STA is terminated if any one of the conditions precedent under the Conditional STA (as set out in Section 2.6.1 of this Circular entitled "Conditions Precedent", save for section 2.6.1(c) in relation to satisfactory due diligence) is not fulfilled by the Long Stop Date (unless such condition precedent is waived by the Parties in writing); or

(ii) The Company exercises its right to terminate the Conditional STA in the event that at any time prior to Completion, any termination event (as set out in Section 2.6.3 of this Circular entitled "Right of Termination") occurs.

Provided always that late interest charge of 0.03% per day shall be payable by the Vendor in the event the Refundable Deposit is not refunded within the said seven (7) Business Days; and

(b) with interest at the annual rate of 10% from the date the Refundable Deposit is received by the Vendor until the date the Refundable Deposit is refunded in full to the Company if the Conditional STA is terminated by Company in the event the results of the financial and legal due diligence on the Target Group are not to the satisfaction of the Company or if the Vendor fails to deliver the deliverables set out in the Schedule 5 of the Conditional STA..

The Consideration was arrived at following arm's length negotiations and on a willing-buyer and willing-seller basis after taking into consideration, inter alia, the following:

(a) the valuation report of the Project as determined by LCH (Asia-Pacific) Surveyors Limited ("**LCH**") and commissioned by the Vendor. Based on the information provided to and analysis conducted by LCH, and subject to the terms of reference, principal assumptions and limitations set out in LCH's report dated 25 June 2012, the market value of the Project as at 31 March 2012 is HK$1,494,000,000 (equivalent to S$243,073,800) based on the HK$:S$ exchange rate of HK$1:S$0.1627 as at the Latest Practicable Date; and

(b) the investment analysis report setting out the market price for high-end residential units in Yichang City, sales conditions in Yiling District and projected sales and cash flows for the next four (4) years.

LCH was retained by the Vendor as a regular independent valuer to conduct valuation of assets of the Vendor. LCH prepared its report in accordance with the guidelines set by the International Valuation Standards (IVS) 2011, published by the International Valuation Standards Council.

LCH is a firm of professional surveyors and international valuation consultants with offices/ representation offices in Hong Kong, Macau, Beijing, Shanghai of the PRC, the Philippines, and associate offices in Malaysia, Singapore, Canada and the United States of America. LCH started its operation in Hong Kong in 1994 as a professional asset advisory and valuation consultant to multi-national enterprises and listed incorporations with bases or interests in the PRC and Asia-Pacific regions.

LCH's team of professionals come from various areas / countries and in particular, from various internationally recognised professional associations such as the Hong Kong Institute of Surveyors, the Royal Institution of Chartered Surveyors and the American Society of Appraisers. LCH provides tailor-made appraisal strategies and approaches to comply with various needs of its clients such as merger and acquisition, public floatation of company's equity interest, feasibility study, incorporation in company accounts and financial statements, statutory requirement, litigation and compensation claims, internal management reference, allocation of overall business purchase price and fairness opinion[1].

Given the above, the Company is satisfied with the use of LCH's valuation report as a reference for the purpose of negotiation.

2.3 Valuation

Pursuant to Rule 1015(2) of the Listing Manual, the Company has engaged the Independent Valuer to prepare the Independent Valuer's Business Valuation Report.

According to the Independent Valuer's Business Valuation Report, the market value of 100% of the equity interest in the Target Company as at 31 December 2012, based on the market based approach, is HK$1.055 billion (equivalent to approximately S$171.6 million). A copy of the Independent Valuer's Business Valuation Report is attached as Appendix F to this Circular.

The Independent Valuer was established in Hong Kong in 2008 and a wholly-owned subsidiary of Roma Group Limited, a company listed on the HKSE (Stock Code 8072). Roma Group Limited is principally engaged in the provision of valuation and technical advisory services in Hong Kong under the brand "Roma". As described on Roma Group Limited's website (www.romagroup.com), Roma is one of the leading service providers in Hong Kong and its principal clients include companies listed on the HKSE. The Independent Valuer has a team of 5 professionally qualified valuers and specialists in the fields such as real estate valuation, equipment valuation, accounting and auditing.

None of the Directors and/or the controlling shareholders of the Company and/or their respective associates have any interest, direct or indirect, in the LCH and/or Independent Valuer.

None of the directors and/or the controlling shareholders of the Vendor and/or their respective associates have any interest, direct or indirect, in the LCH and/or Independent Valuer.

2.4 Adjustment to Consideration

At the Latest Practicable Date, the Company has paid the Vendor the Refundable Deposit in accordance with the terms and conditions of the Sale and Purchase Agreement.

Subject to the terms of the Sale and Purchase Agreement, the Second Tranche Payment and the Final Payment will only be payable on Completion Date and on or before 15 October 2013 respectively.

Pursuant to the terms of the Conditional STA, the Vendor has undertaken to, inter alia, procure that the Dafang Contracts and Guangsha Contracts be terminated prior to the payment of the Second Tranche Payment or Final Payment. The Dafang Contracts and Guangsha Contracts were terminated by the mutual consent of the Target Company, and Dafang and Guangsha respectively.

1 The above information was extracted from the internet website of LCH (Asia-Pacific) Surveyors Limited (http://www.lchgroup.com/eng/services.php?s=3) on the Latest Practicable Date. We have not sought the consent of LCH (Asia-Pacific) Surveyors Limited nor LCH (Asia-Pacific) Surveyors Limited provided its consent to the inclusion of the relevant information extracted from this website and disclaimed any responsibility in relation to reliance on the information. As they have not consented to the inclusion of the above information in this Circular, they are therefore not liable for the relevant information. While reasonable actions have been taken by the Directors to ensure that the relevant information was extracted accurately and fairly from the website, the Directors, the Vendors, the Financial Adviser or other persons involved in the Proposed Acquisition have not conducted independent reviews of the information contained in this website and have not verified the accuracy of the information extracted from it.

The Dafang Contracts and Guangsha Contracts shall be terminated and Dafang and Guangsha shall have exited the Project completely if the parties to the Dafang Contracts and Guangsha Contracts have entered into one or more termination agreements terminating the Dafang Contracts and Guangsha Contracts, provided that such termination agreement(s) shall be valid, enforceable and binding under the applicable laws in the full release and discharge all obligations and liabilities of the Target Group companies to Dafang and Guangsha under the Dafang Contracts and Guangsha Contracts and shall not impose any new obligation or liability on the part of the Target Group.

If, at any time prior to the payment of the Second Tranche Payment or Final Payment, the Vendor has yet to procure the termination of the Dafang Contracts and Guangsha Contracts on terms as described above, and Dafang and Guangsha have yet to exit the Project completely, the Company may, at its absolute discretion, elect to deduct from the Second Tranche Payment or Final Payment (where applicable) a sum of HK$150,000,000 (equivalent to S$24,405,000), or such higher amounts which result from the Losses suffered by the Company resulting thereof.

The Target Company entered into termination agreement (《终止合作协议书》) and its supplemental agreement (《终止合作协议书之补充协议》) (collectively the "**Termination Agreements**") with Dafang and Guangsha on 26 November 2012 and 23 January 2013 respectively to terminate the Dafang Contracts and Guangsha Contracts. Pursuant to the Termination Agreements, there shall be no penalties or payments which the Target Company or the Company is required to make to terminate the Dafang Contracts and the Guangsha Contracts. Under the termination agreement, Guangsha is obliged to complete Phase I of the Project. As at the Latest Practicable Date, some miscellaneous works such as landscaping have not been completed and the settlement of construction fees is still on-going, Guangsha has not yet exited the Project completely and the Target Group has not discharged all obligations and liabilities to Dafang and Guangsha under the Dafang Contracts and Guangsha Contracts. Such obligations and liabilities include payments for construction work performed by Guangsha, and pursuant to profit-sharing arrangements with Dafang up to the date of termination. Pursuant to the Sale and Purchase Agreement, the Vendor has undertaken, inter alia, to procure a full discharge of the Target Company's liabilities to Dafang and Guangsha under the Dafang Contracts and the Guangsha Contracts respectively, save for the refund by the Target Company to Dafang and Guangsha the sum of RMB83,000,000 being Dafang and Guangsha's total capital contribution to the Project. For the full list of undertakings of the Vendor, please refer to Section 2.6.2 of the Circular.

Please refer to Section 15.2 entitled "Termination Agreements" of Appendix A to this Circular for further details on these Termination Agreements.

2.5 Sources of Funds:

In accordance with the terms of the Conditional STA, HK$150,000,000 (equivalent to S$24,405,000), has been paid by the Company to the Vendor in full satisfaction of the Refundable Deposit. The Company funded the Refundable Deposit through internal resources of the CIH Group.

The Company intends to fund the balance of the Consideration, amounting to an aggregate amount of HK$400,000,000 (equivalent to S$65,080,000), through a loan facility. As at the Latest Practicable Date, the Company has been approached by various financiers in relation to possible loan facilities and the Company is in the midst of finalising the terms of these loan facilities with these financiers. Barring any unforeseen circumstances, the Directors of the Company believe that the financing should be in place on or prior to Completion Date.

2.6 Other Material Conditions in the Sale and Purchase Agreement

2.6.1 Conditions Precedent

Completion of the Proposed Acquisition is conditional upon fulfilment of the following conditions:

(a) the Proposed Acquisition being approved by the SGX-ST;

(b) Shareholders' approval to the Proposed Acquisition being obtained at the SGM;

(c) the completion of financial and legal due diligence investigations on the Target Company to the satisfaction of the Company;

(d) no material adverse change (as determined by the Company in its reasonable discretion) in (i) the capacity and ownership status of the Target Equity Interest; (ii) the Target Company; and (iii) the consolidated net tangible assets of the Target Group;

(e) approval from the China Construction Bank to the Proposed Acquisition being obtained by the Target Group; and

(f) completion of the Proposed Disposal.

Condition (f) is no longer applicable pursuant to the Supplemental STA. If any of the applicable conditions precedent are not fulfilled and the fulfilment of such conditions is not waived by the relevant party by the Long Stop Date, the Sale and Purchase Agreement shall ipso facto cease and terminate.

Save for conditions (a), (b) and (e), the other applicable conditions have been satisfied as at the Latest Practicable Date.

2.6.2 Undertakings of the Vendor

The Vendor has undertaken the following to the Company, in the Sale and Purchase Agreement, *inter alia*, as follows:

(a) To procure the Target Company to terminate the Dafang Contracts and Guangsha Contracts by the Completion Date;

(b) To procure a full discharge of the Target Company's liability under the Dafang Contracts and the Guangsha Contracts save for the refund by the Target Company to Dafang and Guangsha the sum of RMB83,000,000 being Dafang and Guangsha's total capital contribution to the Project;

(c) To procure the Target Company to dismiss the representatives seconded by Dafang to the Target Company on or before the Completion Date;

(d) To account for all Losses arising from the exit by Dafang and Guangsha from the Project;

(e) To account for all Losses accrued to the Target Company as a result of non-cooperation, suspension of work or protest of Dafang and Guangsha (including all the staff seconded by them and other entities or individuals employed by them to work in the Target Company);

(f) To account for all Losses arising from damage caused to the Project or the Target Company by the conduct of Dafang and Guangsha as a result of the Vendor's failure terminate the Dafang Contracts and the Guangsha Contracts;

(g) To be responsible for the payment of the partial land premium (土地出让金) in the sum of RMB105,000,000 or such other sum as may be adjusted with respect to the Property, which may be demanded for payment by the local government in the PRC;

(h) To be responsible for the outstanding land contract tax (土地契税) in the sum of RMB4,900,000 and the outstanding land use tax (土地使用税) in the sum of RMB14,000,000, with respect to the Property;

(i) To procure the Target Company to pay the outstanding facilities fee (配套费) in the sum of RMB33,000,000 and stamp duty in the sum of RMB500,000 before the Completion Date;

(j) Save for any fees, taxes, cost or sum which the Vendor has undertaken to pay for or account for in clauses (a) to (i) above or any provision of the Sale and Purchase Agreement, the Target Company shall be responsible for all costs of construction in relation to the Project which have not been paid in full; and

(k) The Company shall have access to the cashflow information of the Target Group. Such cashflow information includes operating cash and cash from financing undertaken in connection with the Project, and to the extent permitted by applicable laws, rules and regulations, the Vendor undertakes to the Company that the application of available cashflow and funds of the Target Group shall be applied as follows (in order of priority):

  (i) settling operating cash expenses including applicable taxes payable;

  (ii) bank loan repayment of the Target Group and cash reserve requirements;

  (iii) other statutory reserves;

  (iv) satisfying other credit payments and reserves;

  (v) in respect of the repayment of shareholders' loans, whereby the Vendor's portion of Shareholders' Loan is subordinated to that of the Company's portion of Shareholders' Loan; and

  (vi) any cash distribution in form of cash advances to shareholders and dividends, and other legal forms of distributions and shareholders' entitlements whereby the Company shall have preferential entitlement as against the Vendor until such time when the Company receives a 10% internal rate of return on the Consideration, taking account of all cash receipts by the Company.

In relation to the Vendor's undertakings to account for Losses referred to in sub-sections (d), (e) and (f), the Vendor shall bear the Losses for and on behalf of the Target Company and/or indemnify the Target Company in connection with such Losses.

2.6.3 Right of Termination

The Company may, in its absolute discretion, elect to terminate the Sale and Purchase Agreement at any time prior to Completion if one or more of the following events occur:

(a) more than 5% of the land area of the Project Land is affected by any written notice of compulsory acquisition or any written notice of intended acquisition by the authorities;

(b) the Project Land suffers a damage or destruction or any part thereof such that the Project Land is rendered inaccessible and such inaccessibility is not remedied before Completion and such damage or destruction results in a reduction of ten per cent (10%) or more of the fair market value of the Project Land;

(c) there is a material breach of the Vendor's Warranties by the Vendor; or

(d) the Vendor fails to procure the termination of the Dafang Contracts and Guangsha Contracts and Dafang and Guangsha have not exited the Project completely.

2.6.4 Completion

On Completion Date, the Vendor will provide the Company with the relevant documents and items required to complete the Proposed Acquisition. These include the customary documents such as instrument of transfer of equity interest, evidence of payment of all land related fees, premium and taxes, and evidence that all Dafang Contracts and Guangsha Contracts are terminated. At Completion, the Vendor or its nominee shall enter into a shareholders' agreement with the Company ("**Shareholders' Agreement**"). The salient terms of the Shareholders' Agreement are as follows:-

(i) The agreed proportion of the equity interest in the Target Company which must be maintained at all times are as follows:-

Parties	**Agreed Proportion**
The Company	55%
The Vendor (held through Beijing Shoukong, Shenzhen Shuren and Triumph Kind)	45%
Total	**100%**

All rights and obligations arising out of or in connection with the Shareholders' Agreement will be borne by the parties in accordance with the agreed proportion.

(ii) All decisions in shareholders' meetings of the Target Group shall be determined by a simple majority of the equity interest voting in favour of the shareholders' resolutions to be approved.

(iii) The board of directors of the Target Company shall consist of 5 directors, of whom 3 shall be appointed the Company; and 2 shall be appointed by the Vendor. All board decisions are decided by a simple majority.

(iv) The members of the board of directors of the Target Company shall serve without remuneration from the Target Company. Any change in the remuneration terms are to be decided by the Company. Please refer to Section 5 entitled "Management Structure" of this Circular for more details on the board of directors of the Target Company.

(v) The principal business of the Target Company shall be undertaking the development of the Project Land and the Project. Any change of principal business will require the consent of the Company.

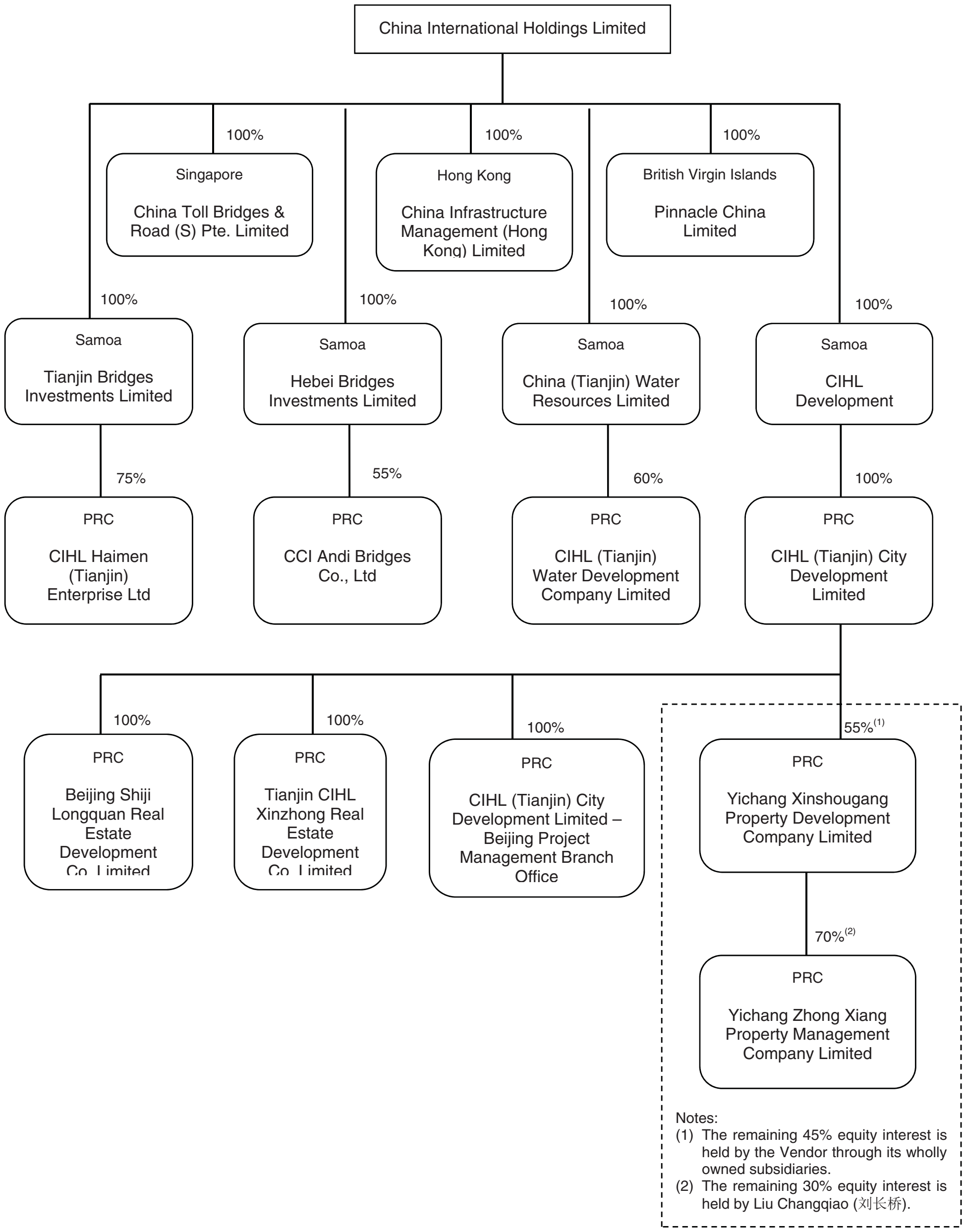
(vi) The day-to-day operation, management and control of the principal business of the Target Company will be the responsibility of the directors appointed by the Company, and the management and staff of the Target Company shall report to the directors and other personnel appointed by the Company. The board of the Target Company shall in turn report to the Board of Directors of the Company.

(vii) The Company and the Vendor shall cause the articles of association of the Target Company and ZX Property Management to be amended to provide that the legal representative of the Target Company and ZX Property Management shall be appointed by the Company.

The Completion of the Proposed Acquisition is scheduled to take place on or before 15 September 2013 or such other date as the Company and the Vendor may mutually agree in writing.

2.6.5 The Enlarged Group Structure

The following diagram depicts the structure of the Enlarged Group following completion of the Proposed Acquisition.



3. PRO FORMA FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

Bases and Assumptions

The financial effects of the Proposed Acquisition on the Target Group as set out below are for illustrative purposes only and are, therefore, not indicative of the actual financial performance or position of the CIH Group after the completion of the Proposed Acquisition. The financial effects of the Proposed Acquisition on the share capital, earnings, consolidated NTA and gearing of the Enlarged Group have been prepared based on the audited consolidated financial statements of the Company for the financial year ended 31 December 2012 and the audited consolidated financial statements of the Target Group for the financial year ended 31 December 2012.

For illustrative purposes, the financial effects of the Proposed Acquisition are based on, inter alia, the following assumptions:

(A) For the purpose of computing the financial effects of the Proposed Acquisition on the earnings of the Enlarged Group, the Proposed Acquisition is assumed to have been completed on 1 January 2012;

(B) For the purpose of computing the financial effects of the Proposed Acquisition on the NTA and gearing of the Enlarged Group, the Proposed Acquisition is assumed to have been completed on 31 December 2012;

(C) The amount of the Target Group's shares which the Company acquires under the Proposed Acquisition will represent 55% of the issued share capital of the Target Group;

(D) The Unaudited Pro Forma Consolidated Financial Statements of the Enlarged Group presented for the financial years ended 31 December 2010, 2011 and 2012 have been prepared using acquisition method to account for the Proposed Acquisition as set out in IFRS 3 'business combination'. In accounting for the Proposed Acquisition of the Target Group, identifiable assets acquired and liabilities assumed in the acquisition are measured at their fair values, which are based on their fair values as at 31 December 2012. The CIH Group recognises any non-controlling interests at the non-controlling interest's proportionate share of the identifiable net assets. The excess of the consideration and the amount of any non-controlling interests in the Target Group over the fair values of the identifiable net assets acquired is recorded as goodwill. As the actual goodwill will be determined at the completion of the Proposed Acquisition, the eventual amounts could be materially different from the amount derived based on the assumption used;

(E) New debt facility amounting to RMB300,000,000 which shall be drawn down, as part of the consideration, on or after the completion date, is assumed to be drawn down on 31 December 2012. The interest expense is based on 7.68% per annum which is 20% above the current market rate. The balance of consideration is funded internally;

(F) The acquisition costs relating to the Proposed Acquisition are assumed to be RMB2,500,000;

(G) The additional cost of sales resulting from fair value adjustments may differ from the actual cost as at the actual date of completion of the Proposed Acquisition upon the full completion of a purchase price allocation exercise;

(H) The assignment of shareholder's loan upon completion of the Proposed Acquisition is assumed to be completed on 31 December 2012;

(I) On 25 March 2013, approximately RMB100,000,000 of shareholder's loan was converted to share capital. The conversion was assumed to be completed on 31 December 2012; and

(J) The additional cost incurred for land tax is to be borne by the Vendor upon completion of the Proposed Acquisition.

The financial effects presented below are pro forma in nature and are for illustrative purposes only, and does not represent the actual financial position and/or results of the Enlarged Group immediately after completion of the Proposed Acquisition.

NTA

For illustrative purposes only, and assuming that the Proposed Acquisition had been effected on 31 December 2012, the effect of the Proposed Acquisition on the NTA of the Enlarged Group is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA* (RMB'000)	752,541	988,559
Number of shares ('000)	874,604	874,604
NTA per share (RMB)	0.86	1.13

*NTA is computed based on total assets (including land use rights and service concession arrangements) less total liabilities less goodwill

EPS

For illustrative purposes only, and assuming that the Proposed Acquisition had been effected on 1 January 2012, the effect of the Proposed Acquisition on the EPS of the Enlarged Group is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Net profit attributable to equity holders of the Company (RMB'000)	8,088	524
Weighted average number of ordinary shares in issue ('000)	874,604	874,604
Basic and diluted EPS (RMB fen)	0.92	0.06

Gearing ratio

For illustrative purposes only, and assuming that the Proposed Acquisition had been effected on 31 December 2012, the effect of the Proposed Acquisition on the gearing of the Enlarged Group is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Total borrowings as at end of FY2012 (RMB'000)	148,436	560,610
Shareholders' funds (RMB'000)	772,844	1,051,087
Gearing (times)	0.19	0.53

The Directors are of the opinion that, after having made all due and careful enquiry, the working capital available to the Enlarged Group as at the date of this Circular is sufficient for its present requirements and for at least the next 12 months.

4. RATIONALE AND BENEFITS OF THE PROPOSED ACQUISITION

4.1 Property Development as one of the core businesses of the Company

On 30 March 2007, the Shareholders approved by way of a special general meeting the increase in the core businesses of the Company to focus on, inter alia, property development projects. The increase in core businesses forms part of the business development strategy of the CIH Group, one of the aims being to provide Shareholders with diversified returns.

The Company has in recent years expanded its property development business by acquiring 95% of the registered share capital of Beijing Shiji Longquan Real Estate Development Co., Ltd ("**SJLQ**") and incorporating Tianjin CIH Xinzhong Real Estate Development Co., Ltd ("**Tianjin CIH**") in 2010.

SJLQ is in the business of real estate development with a focus on primary land development projects in Beijing, the PRC. Primary land development refers to the business of turning a piece of land with existing structures and usage into a piece of land that is ready for development into new residential and commercial units, usually involving resettlement of existing occupiers, demolition of existing structures and laying down basic infrastructures such as roads, electricity and water supply. Since acquisition by CIH in 2010, SJLQ has completed two primary land development projects in Beijing, being No.218 Block (218地块) and No.2 Block (2号地项目) land development projects. SJLQ is currently undertaking a subsidized housing project in Beijing, the Mentougou Chengzicun Project (门头沟城子村保障房项目) with a total gross floor area of approximately 110,000 square metres. In FY 2011 and 2012, SJLQ recorded revenue of RMB30,000 and RMB14,894,000, respectively.

Tianjin CIH was incorporated to develop and manage the parcel of land located in the North Shore of Cui Ping Lake Tourist District in Tianjin Ji County, the PRC ("Tianjin Land"), which land use right was awarded to the CIH Group for a consideration of RMB200 million in 2010.

As of 31 December 2012, the Company's total investment in the real estate sector in China is approximately RMB355.5 million (approximately 34.5% of the total assets of the CIH Group as at 31 December 2012) as measured by the combined total assets of the subsidiaries of the Company engaged in land and property development, comprising the following:

(i) RMB113.9 million being the total assets of SJLQ (real estate development with a focus on primary land development projects in Beijing); and

(ii) RMB241.6 million being the total assets of Tianjin CIH (development of the Tianjin Land).

On 4 January 2013, the Company acquired the remaining 5% equity interest of SJLQ which it does not own, for a cash consideration of RMB500,000, equivalent to S$103,275.91 (based on an exchange rate of S$1.00 : RMB4.8414), whereupon SJLQ became a wholly-owned subsidiary of the CIH Group.

Tianjin CIH has submitted two rounds of conceptual design proposals to the government planning authority for approval in the past two years. The initial conceptual design proposal based on the parameters set in the land use rights transfer contract was submitted in 2011. The government planning authority suggested substantial changes to the conceptual design due to the changes in the grand plan for the district by the local government, in particular requiring the project to reduce density. Following extensive consultations with the planning authorities and design consultants, Tianjin CIH submitted a revised proposal in 2012. The Company expects the overall conceptual design to be approved around the end of August 2013.

As a result of this consultation and approval process, Tianjin CIH has twice applied for extension of the construction commencement date, and in both occasions, requests for extensions were granted. The project is now in the stage of engineering design and contract solicitation. The Company expects the project to obtain the planning permit and construction permit and to commence construction in late 2013.

The Company is of the view that this timeline does not deviate from the current norm in the PRC, where many property development projects have experienced slowing down in the past two years due to the macroeconomic situation and the tightening of government policy in the PRC.

Additionally, there are also certain factors that are out of the Company's control that contributed to the delay in the commencement of the Tianjin Project, such as road construction and electricity supply works and other infrastructural works around the Tianjin Land which are required to be carried out by the local government.

The Company believes that this project has cleared its major hurdles and expects the planning permit to be approved very shortly.

The Company believes that it is well within its capacity to undertake more than one property project at any one time. The Company has been in real estate development business since late 2010. The members of the management team are experienced in construction business and property development business in China. Since then, the Company has completed several land development projects in Beijing and is currently undertaking a land development project in Beijing and one residential property development project in Tianjin. With the Proposed Acquisition, the Company has been presented with yet another opportunity to further develop its existing property development business. The Company is of the view that it has the capacity to take on more projects. The Proposed Acquisition has distinct advantages compared with the Tianjin Land property project in that the development of the Project is already progressing smoothly, with Area 1 and Area 3 fully completed as at the Latest Practicable Date. Further, the Target Group has already turned profitable in FY2012. Accordingly, the Board is of the view is that, the Proposed Acquisition is in the interest of the Company for the reasons described in the Circular.

Upon the Completion of the Proposed Acquisition, CIH Group's businesses will mainly comprise real estate development, water plant and distribution as well as investments in natural resources. The Directors believe the Proposed Acquisition will significantly increase the contribution of real estate development to CIH Group and the composition of business will provide CIH Group with stable income and improved return. In addition to the expansion of its real estate business, the Company intends to continue to strengthen its other core business segments in water plant development and operations, as well as new energy and natural resources.

4.2 Development of Real Estate Industry in the PRC

According to the 12th Five Year National Development Plan (十二五规划), the PRC Government is committed to stimulating domestic demand as a long-term strategic goal and transforming the economy that relies heavily on investment and export into an economy that gives more weight to domestic consumption. The plan shows that the PRC Government is committed to increasing household income by an annual average of 7% and implementing policy initiatives such as raising the minimum wage and the income tax threshold to increase residents' disposable income, build a well-developed social security system and boost domestic household consumption. Further, the PRC Government has adopted an integrated policy framework to encourage the urbanization of the country.

In the near term, the outlook of the real estate market in China remains uncertain due to the market consolidation in 2012 in response to the tightening credit conditions and the government's concerted efforts to control the residential property price increase in many urban areas where residential property price increase over the last few years have been deemed excessively high.

However, despite such efforts, increasing household income and urbanization at a steady pace contribute to the increasing demand for properties in China in the medium term. Overall, the PRC Government's commitments and measures are expected to have a positive impact on domestic demand in the next five years.

The following table shows the national GDP and housing development in China in the past three years:

	2010	2011	2012
GDP Nominal, in billion RMB	40,152	47,288	51,932
New Residential Construction Starts in million square metres	1,294	1,460	1,306
New Residential Completion in million square metres	612	717	790

Source: National Bureau of Statistics of China and its website: www.stats.gov.cn[2]

Please also refer to Section 3.1 entitled "Overview on the Economy in China" of the Independent Valuer's Business Valuation Report set out in Appendix F of this Circular for more information.

4.3 Growth and development of Yichang

The Project Land is located in Yichang City, the second largest city in the Hubei Province. As part of the 12th Five Year National Development Plan (十二五规划), the PRC Government has plans to further develop Yichang City into a mega-city (特大型城市) to cover an area of 160 square kilometres.

According to the official statistics website (www.stats-yichang.gov.cn/)[3] of Yichang City, Yichang City has a population of 4.08 million. Yichang City has experienced high GDP growth in the recent years due to rapid industrialization and urbanization. It was reported in the Yichang City official statistics website (www.stats-yichang.gov.cn/)[2] that the GDP of Yichang City increased from RMB154.7 billion in 2010 to RMB250.8 billion in 2012. Further, a report by the Yichang Tourism Authority shows that the tourism industry generated a gross income of RMB14.1 billion in 2011.

It can be seen from these reports, that Yichang City has experienced high GDP growth in the last 2 years due to rapid industrialization and urbanization. According to Yichang Overall City Planning (2011-2030) (宜昌市城市总体规划（2011－2030年）) ("**Yichang City Planning**") issued by the Yichang People's Government on 18 October 2012 and approved by the Hubei Province People's Government, Yichang City's urban population is expected to grow from 4.08 million in 2011 to 4.80 million in 2015, and to 5.38 million in 2030. One of the goals of the local government is to build the city into a tourism, business and convention service centre in the PRC. In the Yichang City Planning, it was stated that Yichang City functions as (i) a famous hydropower tourism city; (ii) the transportation and logistics centre for middle and upper reach of the Yangtze River; and an important base for Hubei Province's finance, culture, education, science and technology, public health, and information services.

[2] The above information was extracted from the internet website of National Bureau of Statistics of China (www.stats.gov.cn) on the Latest Practicable Date. We have not sought the consent of National Bureau of Statistics of China nor has National Statistics Bureau of China provided its consent to the inclusion of the relevant information extracted from this website and disclaimed any responsibility in relation to reliance on the information. As they have not consented to the inclusion of the above information in this Circular, they are therefore not liable for the relevant information. While reasonable actions have been taken by the Directors to ensure that the relevant information was extracted accurately and fairly from the website, the Directors, the Vendors, the Financial Adviser or other persons involved in the Proposed Acquisition have not conducted independent reviews of the information contained in this website and have not verified the accuracy of the information extracted from it.

[3] The above information was extracted from the official statistics website of Yichang City (www.stats-yichang.gov.cn) on the Latest Practicable Date. We have not sought the consent of official statistics website of Yichang City nor has the official statistics website of Yichang City provided its consent to the inclusion of the relevant information extracted from this website and disclaimed any responsibility in relation to reliance on the information. As they have not consented to the inclusion of the above information in this Circular, they are therefore not liable for the relevant information. While reasonable actions have been taken by the Directors to ensure that the relevant information was extracted accurately and fairly from the website, the Directors, the Vendors, the Financial Adviser or other persons involved in the Proposed Acquisition have not conducted independent reviews of the information contained in this website and have not verified the accuracy of the information extracted from it.

Based on the positive prospects of the tourism market and the increasing commercial activities in Yichang City as described above, the Company expects the sales of the commercial and residential units in the Project to be brisk, to keep up with the commercial demands of the rapidly developing city. The Directors believe that given the above factors, the urban population growth and rising living standards will be key drivers in the demand for housing in Yichang City.

In view of the above, the Directors are of the opinion that the timing of the Proposed Acquisition is opportune with the buoyant real estate and tourism industry in Yichang City.

In addition, the development of the Yichang Convention Centre will allow Yichang City to better function as a significant base for Hubei Province's finance, culture, education, science and technology, public health and information services.

4.4 Property market in the Yiling District of Yichang City

The Yiling District Real Estate Administration Bureau (夷陵区房产管理局) reported in August 2009 (fc.10.gov.cn)[4] that based on the analysis conducted by the property industry of the Yiling District of Yichang City, Yiling District as the "backyard" of Yichang City, has all the elements to become a new city core of Yichang City. It was further reported that with the quality of living within the Yiling District improving, Yiling District will attract more and more residential property buyers from other districts of Yichang City.

An updated report published by the Yiling District Real Estate Administration Bureau (夷陵区房产管理局) on 17 January 2012 (fc.10.gov.cn)[4] regarding the property market of Yichang City shows that approximately 2.87 billion of property investment was completed in year 2011 within the Yiling District, representing a growth of approximately 46.88% as compared with year 2010. The sale revenue of residential property was approximately 2.14 billion, representing a growth of 8.51% as compared with year 2010.

While the local governments of other cities in the PRC such as Shanghai and Beijing impose restrictions on (a) households purchasing a second or third property, (b) non-residents purchasing property (limits on home purchase), and (c) buyers obtaining credit under certain conditions (limits on buyer's credit), Yichang City has, as at the Latest Practicable Date, in so far as the Directors are aware, imposed no such limits, except that prices of new home for sales are subject to local government review and approval (limits on price).

4.5 Competitive strengths of the Project

The Project includes the largest villa project currently approved by the government of Yichang City. The Project has a plot ratio of 0.99, which signifies a low population density and exclusivity. The villas in the Project are mostly detached houses and townhouses, with private access to a part of the Meiziya reservoir (梅子垭水库), the only egret ecological wetland protection area in Yichang City. This unique natural environment sets the Project apart from the other projects currently under construction in Yichang City.

Based on the information available to the Directors, the Yichang Convention Centre will be the first international convention and exhibition centre in Yichang City. The Directors are of the view that, based on positive prospects of the tourism market and the increasing commercial activities in Yichang City, the development of the Project, which includes the Yichang Hotel, a 5 star hotel, will capture the increasing demand for superior quality hotel rooms in Yichang City. Furthermore,

[4] The above information was extracted from the internet website of Yiling District Real Estate Administration Bureau (fc.10.gov.cn) on the Latest Practicable Date. We have not sought the consent of Yiling District Real Estate Administration Bureau nor has Yiling District Real Estate Administration Bureau provided its consent to the inclusion of the relevant information extracted from this website and disclaimed any responsibility in relation to reliance on the information. As they have not consented to the inclusion of the above information in this Circular, they are therefore not liable for the relevant information. While reasonable actions have been taken by the Directors to ensure that the relevant information was extracted accurately and fairly from the website, the Directors, the Vendors, the Financial Adviser or other persons involved in the Proposed Acquisition have not conducted independent reviews of the information contained in this website and have not verified the accuracy of the information extracted from it.

according to the Yichang Overall City Planning (2005-2020) (《宜昌市城市总规划（２００５－２０２０年）》) approved by the People's Government of Hubei Province in May 2006, it is the goal of Yichang City to develop an exhibitions and conventions industry and to build an international exhibition and convention centre in the city. The development of the Yichang Convention Centre will remove the constraints on the future development of Yichang City by providing a very much needed world-class exhibition and convention facility in the city.

The Board is of the view that the development of the Project conforms to the Yichang City planning proposals and is in line with the investment strategy and meets the investment criteria of the Company for the reasons set out below:

(i) The Company has exited the toll bridge businesses in Tianjin and Hebei Province due to the change of policy by the local governments in the last five years. The Company realised cash in this process and it is the stated intention of the Company to apply the cash realised in two areas. One area is land and property development in China, which is a sector that the Company has been in for a long time. Another area is natural resources, which is a new area for the Company. The Company believes this balanced strategy is in the best interest of the shareholders.

(ii) In the land and property sector, the Company seeks to balance the current portfolio of projects, which comprises primary land development in Beijing and early stage property development in Tianjin, with more mature and high yielding property development.

(iii) The Company's primary land development business yields stable but moderate returns, while the Company's property development in Jixian, Tianjin, is still in the design and planning stage. It is typical to observe in the PRC market and in other parts of the world, that the commencement of construction would take several years even after land use rights have been secured and design approval has been obtained.

(iv) The Target Company offers the Company a good opportunity to enter into a business that is already in the construction and selling stages and yet with a large undeveloped land bank.

5. RISK FACTORS

The Proposed Acquisition involves a number of risks, some of which could be substantial, including market, liquidity, credit, operational, legal and regulatory risks relating to the Target Company, and also may be inherent in the Target Company's business.

Shareholders should evaluate carefully the risk factors set out below and other information in this Circular before deciding on the Proposed Acquisition and how to cast their votes at the SGM. The risk factors set out below are not the only risks which the Target Company faces. Some risks are not yet known to the Company, the Vendor and/or the Target Company and there may be others which they currently believe are not material but may subsequently turn out to be so. The risk factors set out below should not be construed as a comprehensive listing of all the risk factors and the listing is not set out in any particular order.

If any of the considerations, risks and uncertainties set out below develops into actual events, the financial position, results, cash flow, performance, business operations and prospects of the Target Company and the Company could be, directly or indirectly, materially and adversely affected.

This Circular also contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results could differ materially from those anticipated or implied in these forward-looking statements as a result of certain factors described below and elsewhere in this Circular.

5.1 Risks Relating to the Business of the Target Group

The Target Group's limited operating history may make it difficult to evaluate the Target Group's business and prospects

The Target Group has a limited operating history. The lack of a long and established operating history may cause uncertainty in the Target Group's future growth prospects and performance. There can be no assurance that the Target Group would be able to complete and develop the Project profitably. The Target Group commenced construction of the Project on the Project Land in March 2011 and commenced sales of residential property units in June 2011. While the pre-sale of a property may generate positive cash flows for the Target Company in the period the sales proceeds are received, revenue recognition is based on completion method. Please refer to the summary of significant accounting policies under Appendix C of this Circular for details. Furthermore, due to the fact that the sales of the Target Group's residential properties do not occur at regular intervals, the Target Group's results of operations for any period may not be directly comparable with any corresponding period and, therefore, may not be a useful indicator of the Target Group's business performance. Accordingly, as a result of the Target Group's limited operating history, the historical operating results may not provide a meaningful basis for evaluating the Target Group's business. The Target Group may also not be able to achieve a similar growth rate in future periods. Accordingly, the results of operations for any prior periods should not be relied on as an indication of the Target Group's future performance.

The Target Group faces uncertainty in the real estate and tourism industries and the recent economic crisis

The demand for residential properties, hotel rooms and exhibition facilities in Yichang City may be affected by the cyclical nature of the real estate and tourism industries. Property values in Yichang City are affected by, among other factors, supply and demand of comparable properties, interest rates, tax laws and political and economic developments in the PRC. As the sole active business of the Target Group is in property development, profitability of the Target Group is highly dependent on market demand. Any change in customer preferences and market conditions may affect the Target Group's financial condition.

In addition, the current global financial crisis has affected the PRC economic condition and has had a negative impact on the retail and procurement industries in the PRC. Although the PRC Government has adopted increasingly flexible macroeconomic policies, the demand for hotel rooms and exhibition facilities in Yichang City in the future is uncertain.

Changes in the existing city planning or implementation of local government regulation may affect the Project

The Project is located in Yichang City of Hubei Province. As such, the Target Group's business is heavily dependent on the city planning of Yichang City and/or implementation of local government regulations. Any change in the existing planning or repositioning of Yichang City will have significant impact on the tourism industry and structure of the economy of the city that could affect the business of the Target Group.

The Target Group may face difficulty obtaining the substantial capital resources required to fund the development of the Project

The development of the Project is capital intensive. The availability of adequate funding is crucial to the Target Group to complete the Project. Since the Project will be developed in phases, the Target Group will finance the Project through the sale proceeds from the developed phases of the Project as well as from borrowings.

The Target Group's ability to secure sufficient financing for the Project depends on a number of factors that are beyond the Target Group's control, including, lenders' perception of the Target Group's creditworthiness, the PRC economy and the PRC regulations that affect the finance costs for the Target Group. Failure to obtain adequate funding at commercially reasonable terms may limit the Target Group's ability to complete the development of the Project according to the existing development plans and schedule and may increase the Target Group's financing costs.

Potential conflicts of interests by members of its management team

The Target Group's management team members may have interests, direct or indirect, in any businesses carrying on the same trade as the Target Company or they may engage in employment with competitors while they are in the employment of the Target Company or shortly after they leave the employment of the Target Company. In the event that they act in such manner contrary to the interest of the Target Group or compete with the business of the Target Group, the Target Group's business and financial performance will be adversely affected.

The Target Group relies on external contractors for the development of the Project and future property development projects

The Target Group engages independent external contractors to provide various services, including design, construction, piling and foundation, building and property fit-out works, installation of air-conditioning units and elevators, and interior decoration.

Completion of the Project is subject to the performance of these external contractors of their obligations under contracts to be entered with the Target Group, including the pre-agreed schedule for completion, and it is uncertain that the services rendered by any of these external contractors will always be satisfactory or match the Target Group's requirements for quality. If the performance of any external contractor is unsatisfactory, or they are in breach of their contractual obligations, the Target Group may need to replace such contractor or take other actions to remedy the situation, which could materially and adversely affect the cost and construction progress of the Project. The completion of the Project may be delayed, and the Target Group may incur additional costs due to a contractor's financial or other difficulties. Any of these factors may have a material adverse effect on the Target Group's operations and financial condition.

The Target Group may incur losses due to defects, breaches of laws and other deficiencies

There is no assurance that the Project will not have defects or deficiencies requiring repair or maintenance (including design, construction or other latent property or equipment defects in the Project which may require additional capital expenditure, special repair or maintenance expenses) or be affected by breaches of laws and regulations. Such defects or deficiencies may require significant capital expenditures or obligations to third parties and involve significant and unpredictable patterns and levels of expenditure which may have a material adverse effect on the Company's earnings and cash flows.

The Target Group guarantees the mortgages provided to its customers and consequently are liable to the mortgagee banks if the Target Group's customers default on their mortgage payments

The Target Group arranges for various domestic banks in the PRC to provide loans and mortgage facilities to its customers prior to completion. In line with consumer banking practices in the PRC, these banks require the Target Group to provide interim guarantees in respect of these loans. These guarantees are discharged after the Target Group submits the relevant individual property ownership certificates and certificates of other interests in the property to the mortgagee banks on behalf of the purchasers, or upon satisfaction of the relevant mortgage by the purchasers. If a purchaser defaults on a loan, the Target Group will have to repay the entire outstanding principal amount of the loan, together with all accrued interest thereon, owing by the purchaser to the relevant mortgagee bank. In line with industry practice, the Target Group does not conduct independent credit checks on purchasers but relies on the credit checks conducted by the mortgagee banks. If there should be substantial defaults on the loans during the period of the guarantee and the guarantee is called upon, the Target Group's business could be affected to the extent that the Target Group may be unable to re-sell these properties or re-sell them at prices that are above the loan amounts repaid, and the financial condition and results of operations of the Target Group may be materially and adversely affected.

As of 31 December 2011 and 2012, the Target Group's outstanding guarantees in respect of mortgages provided to the Target Group's customers amounted to approximately RMB27.664 million and RMB69.793 million respectively (there were no such guarantees in 2010), and RMB105.32 million as at the Latest Practicable Date. The guarantees will be released when the property certificates are issued to the purchasers, which will be mortgaged by the banks providing the mortgage loans. It is expected that the property certificates in relation to the Area 3 units will be issued in August 2013, and the property certificates in relation to Area 1 units will be issued in October 2013.

Property valuations may materially differ from prices that can be achieved

Valuations of the Target Group as of 31 December 2012 prepared by the Independent Valuer are contained in Appendix F to this Circular. These valuations are based upon certain assumptions that are subjective. With respect to properties under development and properties held for future development, the valuations are generally based on the assumptions, among other things, that (a) the properties will be completed or developed as currently proposed, (b) all regulatory and governmental approvals for the proposals have been obtained, (c) the Target Group is in possession of proper legal titles, and (d) all premiums have been paid in connection with such properties.

Unanticipated changes in relation to particular properties, or changes in general or local economic or regulatory conditions or other relevant factors could affect such valuations and the returns that can be realised from these properties. The actual values that can be derived from these properties may materially differ from the values attributed to them in the Independent Valuer's Report prepared by the Independent Valuer.

The Target Group is subject to risks in relation to its pre-sold properties

The Target Group pre-sells most of its properties prior to completion in line with industry practice. In the event of a failure or delay in the delivery of the Target Group's pre-sold properties to purchasers, the Target Group may be liable for potential losses that purchasers may suffer as a result. Failure to complete a property development on time may be attributed to factors such as the time taken and the costs involved in completing construction, which are in turn adversely affected by factors such as delays in obtaining requisite licences, permits or approvals from government agencies or authorities, shortages of labour, adverse weather conditions, natural disasters, labour disputes, disputes with contractors, accidents and changes in government priorities and policies. If the delay in delivery extends beyond the contractually specified period, the purchasers may also be entitled to terminate the pre-sale agreements and claim refunds of monies paid, damages and compensation for late delivery. There is no assurance that the Target Group will not experience significant delays in completion or delivery.

The performance of the Target Group may be subject to risks of unsold property

Unsold property development assets are relatively illiquid prior to their sale. Such illiquidity limits the Target Group's ability to convert its unsold property development assets into cash on short notice. It can also affect the selling prices of the Target Group's unsold completed property development assets negatively in the event a quick sale of these assets is required. Further, continuing holding costs, interest costs and maintenance costs may accrue, which may consequently adversely affect the Target Group's financial performance.

The operating results of the Target Group fluctuate from period to period and the fluctuations make it difficult to predict its future performance

In FY2010 and FY2011, the Target Group had no revenue and the Project was still under construction. In FY2012, the Target Group's revenue from sales of properties was RMB171,4 million. The Target Group derives substantially all of its revenue from the sale of properties, hence its results of operations are affected by the availability of properties for sale, demand for its properties and the price at which the properties are sold. The demand for and pricing of the properties are in turn, to a large extent, affected by the general conditions of the property markets. In addition, the Target Group recognises proceeds from the sale of a property as revenue only upon the delivery of the property. Therefore, the revenue and profit of the Target Group during any given period reflects the quantity of properties delivered during that period and are affected by any peaks or troughs of its property delivery schedule and may not be indicative of the actual demand for its properties or sales achieved during that period. The timing difference between the actual pre-sales and revenue recognition may be between 6 months to 12 months. The Target Group's revenue and profit during any period generally reflect property investment decisions made by purchasers at some significant time in the past, typically at least in the prior fiscal period. As a result, the Target Group's operating results for any period are not necessarily indicative of results that may be expected for any future period.

The Target Group may be involved in legal and other proceedings arising from its operations from time to time

The Target Group may be involved from time to time in disputes with various parties involved in the development and sale of its properties such as contractors, sub-contractors, suppliers, construction companies, purchasers and other partners. These disputes may lead to legal and other proceedings, and may cause the Target Group to suffer additional costs and delays. Save as disclosed in Section 17 entitled "Material Litigation" of Appendix A to the Circular, the Target Group is not, as at the Latest Practicable Date, engaged in any legal or arbitration proceedings (either as plaintiff or defendant) which may have a material effect on the Target Group's financial position or profitability.

The Target Group may from time to time be subject to legal proceedings, government proceedings and administrative penalties

Legal proceedings and administrative penalties against the Target Group relating to property development may arise from time to time. There can be no assurance that the Target Group will not be involved in proceedings or be subject to penalties or that such proceedings or penalties will not adversely affect the financial condition, results of operation or cash flow of the Target Group.

The Target Group is regulated by various government authorities and regulations. If any government authority believes that the Target Group is not in compliance with the regulations, it could delay the approval process, refuse to grant or renew the relevant approvals or licenses, impose administrative penalties, institute legal proceedings to seize the properties, assess civil and/or criminal penalties against the Target Group, its officers or employees. Any such action by the government authority would have a material adverse effect on the business, financial condition and results of operations or cash flow of the Target Group.

The Target Group's results of operations may be adversely affected if the Target Group fails to obtain, or if there are material delays in obtaining, requisite governmental approvals for its property developments

The real estate industry in the PRC is heavily regulated by the PRC Government. PRC real estate developers must comply with various requirements mandated by applicable laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development, a property developer must obtain various permits, licences, certificates and other approvals from the relevant administrative authorities at various stages of the property development process, including land use rights documents, planning permits, construction permits, pre-sale permits and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions. There is no assurance that that the Target Group will not encounter problems in obtaining such government approvals or in fulfilling the conditions required for obtaining the approvals, or that it will be able to adapt itself to new laws, regulations or policies that may come into effect from time to time with respect to the real estate industry in general or the particular processes with respect to the granting of approvals. If the Target Group fails to obtain relevant approvals or fulfil the conditions of those approvals, the development of the Project or future projects may not proceed on schedule, and the Target Group's business, financial condition and results of operations may be adversely affected.

The Target Group may suffer material losses in excess of insurance proceeds or the Target Group may not put in place or maintain adequate insurance in relation to the Properties and its potential liabilities to third parties

There are certain types of risk (such as war risk and losses caused by the outbreak of contagious diseases, contamination or other environmental breaches) for which insurance is not available or not available on commercially practicable terms. If the Target Group suffers any uninsured losses, damages and liabilities in the course of its operations and property development, the Target Group may not have sufficient funds to cover any such losses, damages or liabilities or to replace any property development that has been destroyed. No assurance can be given that material losses in excess of insurance proceeds will not occur. In addition, any payment made to cover any losses, damages or liabilities could have a material adverse effect on the Target Group's business, results of operations and financial condition.

The Target Group may be adversely affected by fluctuations in the property market in the PRC

The Project is located in the PRC. An economic decline in the PRC could adversely affect the Target Group's results of operation and future growth. The property market in the PRC is subject to changes in macro-economic policies of the PRC Government. Policies, legislation and other measures taken by the PRC Government to regulate the economy may change in response to market and economic conditions, with a resulting impact on the Target Group's business. The Target Group's business is also subject to the cyclical nature of the property industry, and is hence vulnerable to any downturn in the residential and/or commercial property development market in the PRC.

The Target Group faces increasing competition that could adversely affect its business and financial position

In recent years, a large number of property developers have begun to undertake property development and investment projects in Yichang City. Competition between property developers is intense and may result in, among other things, increased costs of acquisition of land for development, oversupply of properties in Yichang City, a decrease in property prices, a slowdown in the rate at which new property developments will be approved and/or reviewed by the relevant government authorities, an increase in construction costs and difficulty in obtaining high quality contractors and qualified employees. Any such consequences may adversely affect the Target Group's business, results of operations and financial position. In addition, the real estate market in China is rapidly changing. If the Target Group cannot respond to changes in market conditions more swiftly or effectively than its competitors do, its ability to generate revenue, financial condition and results of operations will be adversely affected.

The Target Group's land use rights may be forfeited by the PRC Government if the Target Group fails to comply with the terms of the land grant contracts

Under PRC laws, if a developer fails to comply with or develop land according to the terms of the land grant contract (including those relating to payment of fees, land use or the schedule for commencement and completion of the development of the land), the relevant government authority may give a warning to or impose a penalty on the developer or forfeit the land use rights granted to the developer. There can be no assurance that circumstances leading to a possible breach of terms of the land grant contract, for example, a delay in the payment of the land grant fees or delay in the commencement of the development of the land for more than two years from the stipulated date of commencement in the land grant contract, will not arise or forfeiture action will not be taken by the relevant authorities in the future. Therefore, if the Target Group is affected by circumstances which would lead to a breach of the terms of the land grant contract and lead to the Target Group's land being forfeited by the PRC Government, the Target Group's business and prospects will be adversely affected.

The Target Group is subject to risks in relation to interest rate movements

The Target Group faces risks in relation to interest rate movements, in particular, as a result of the debts undertaken to finance its developments. Changes in interest rates will affect the Target Group's interest income and interest expense from short-term deposits and other interest-bearing financial assets and liabilities. This could in turn have a material and adverse effect on the Target Group's net profits. Furthermore, an increase in interest rates would also adversely affect the willingness and ability of prospective customers to purchase properties sold by the Target Group, the Target Group's ability to service loans that it has guaranteed and its ability to raise and service long-term debt.

Changes in tax laws, regulations, policies, concessions and treatment may materially and adversely affect the Target Group's financial condition and results of operations

If there is a change in the tax laws, regulations, policies, concessions and treatment, the Target Group's profit may be affected adversely, resulting in a material and adverse effect on its financial condition and results of operations.

The Target Group has outstanding tax liabilities relating to land use rights and may face administrative penalties.

As at the Latest Practicable Date, the Target Group has outstanding tax liabilities relating to land use rights which, in aggregate, are less than RMB18,544,421.61, the amount stated in the balance sheet at the end of FY2012. The Target Group may be ordered by the tax authorities to make payment for the outstanding tax liabilities, and an additional fine may be imposed at the discretion of the tax authorities, for late payment of tax liabilities.

5.2 Risks Relating to the Enlarged Group

If goodwill arises from the Proposed Acquisition, the impairment of goodwill in the current and/or subsequent financial periods may materially affect the income statement and financial position of the Enlarged Group

In accounting for the Proposed Acquisition of the Target Group, identifiable assets acquired and liabilities assumed in the acquisition are measured at their fair values, which are based on their fair values as at 31 December 2012. The CIH Group recognises any non-controlling interests at the non-controlling interest's proportionate share of the identifiable net assets. The excess of the consideration and the amount of any non-controlling interests in the Target Group over the fair values of the identifiable net assets acquired is recorded as goodwill. As the actual goodwill will be determined at the completion of the Proposed Acquisition upon the full completion of a purchase price allocation exercise, the eventual amounts could be materially different from the amount derived based on the assumption used.

The Proposed Acquisition upon completion may result in goodwill being recognised in the financial statements of the Enlarged Group for FY2013. The accounting policies require the goodwill to be tested for impairment on an annual basis or more frequently if there are indications of impairment. This assessment may lead to an impairment charge to be recorded in the income statements of the Enlarged Group in the current or subsequent financial periods. Any impairment charge against the goodwill could have a material negative impact on the profits of the Enlarged Group to be reported in respect of the current or subsequent financial periods.

The Enlarged Group faces risks associated with high gearing and debt financing and may require additional financing in future

The Enlarged Group may need to obtain additional debt or equity financing to fund its business operations, acquisitions or capital expenditure in the future. Additional equity financing may result in dilution to the holders of the Company's shares. Additional debt financing may include conditions that would restrict the Enlarged Group's freedom to operate its business, such as conditions that:

(i) limit its ability to pay dividends or require the Enlarged Group to seek the lenders' consent for payment of dividends;

(ii) require the Enlarged Group to set aside a portion of cash flow from business operations towards repayment of its debt, thereby reducing the availability of the Enlarged Group's cash flow to fund capital expenditure, working capital and other general corporate purposes; and/or

(iii) limit the Enlarged Group's flexibility in planning for, or reacting to, changes in its business and industry.

The Enlarged Group cannot ensure that it will be able to obtain any additional financing on terms that are acceptable to it, or at all. Failure to obtain additional financing on favourable terms will result in the Enlarged Group foregoing expansion opportunities and this could affect the Enlarged Group's business materially and adversely.

Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, the interest expense relating to such refinanced indebtedness would increase, which would adversely affect the Enlarged Group's cash flow. An increase in interest rates, especially for a prolonged period, could have a material and adverse effect on the Enlarged Group's business and financial performance.

5.3 Risks Relating to the PRC

The PRC Government has implemented property control measures in relation to the PRC property market

Increasing speculation in the PRC property market may result in rapid increases in property prices, and to discourage speculation in the PRC property market, the PRC Government has, among other things, implemented the following control measures:-

(i) On 7 January 2010, the State Council issued the Notice of the State Council Office Regarding the Promotion of Stable and Healthy Development of the Property Market (国务院办公厅关于促进房地产平稳健康发展的通知), which requires the local governments at all levels to strengthen the real estate credit risk management, to rectify the property market, and to intensify its efforts to promote the healthy development of the property market through supporting reasonable housing consumption, curbing speculative investment and increasing effective supply.

(ii) On 17 April 2010, the State Council issued the Notice of the State Council Regarding Curtailing the Excessively Prompt Increase in Property Prices in Certain Cities (国务院关于坚决遏制部分城市房价过快上涨的通知), which increased the minimum down-payment ratio for second homes from 40.0% to 50.0%. The State Council also required mortgage banks to strictly adhere to the policy of charging mortgage rates for second homes at no less than 110.0% of the corresponding benchmark lending rate. The State Council required banks in cities with significant property price increases to stop lending to buyers of third properties. Banks can also suspend mortgage lending to non-local residents who cannot provide tax returns or proof of social security contributions for more than one year. The State Council also authorised local governments to restrict the number of properties an individual can buy.

(iii) On 16 January 2011, the General Office of the State Council issued the Notice on Issues Concerning Further Properly Regulating and Controlling the Real Estate Market (国务院办公厅关于进一步做好房地产市场调控工作有关问题的通知), which further increased the minimum down-payment ratio for second homes from 50.0% to 60.0%. The State Council also authorised its branches to raise the down-payment ratio and mortgage rate for second homes in light of objectives and policies of local governments.

Although various control measures are intended to promote more balanced property developments in the long-term, these measures could adversely affect the development and sales of the Properties. In addition, there is no assurance that the PRC Government will not introduce additional measures from time to time to regulate the growth of the PRC property market. The continuation of the existing measures and the introduction of any new measures may materially and adversely affect the Target Group's business, financial condition and results of operations.

Interpretation of the PRC laws and regulations involves uncertainty.

The PRC legal system is based on written statutes and prior court decisions can only be cited as reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. However, as these laws and regulations are continually evolving in response to changing economic and other conditions, and because of the limited volume of published cases and their non-binding nature, any particular interpretation of PRC laws and regulations may not be definitive. The PRC may not accord equivalent rights (or protection for such rights) to those rights investors might expect in countries with more sophisticated real estate laws and regulations.

Furthermore, the PRC is geographically large and divided into various provinces and municipalities and as such, different laws, rules, regulations and policies apply in different provinces and they may have different and varying applications and interpretations in different parts of the PRC. The PRC currently does not have any centralised register or official resources where legislation enacted by the central and local authorities is made available to the public. Legislation or regulations, particularly for local applications, may be enacted without prior notice or announcement to the public.

Agreements which are governed under PRC laws may be more difficult to enforce by legal or arbitral proceedings in the PRC than in countries with more mature legal systems. Even if the agreements generally provide for arbitral proceedings for disputes arising out of the agreements to be in another jurisdiction, it may be difficult for the Target Group to obtain effective enforcement in the PRC of an arbitral award obtained in that jurisdiction.

The properties or a part of them owned by the Target Group may be acquired compulsorily by the PRC Government

Under PRC laws and regulations, there are circumstances under which the PRC Government may be empowered to acquire properties owned by the Target Group. In the event that the compensation paid for the acquisition is less than the market value of the property acquired, such compulsory acquisitions by the PRC Government would have an adverse effect on the Target Group. In addition, the amount of compensation paid to the Target Group may be less than the cost which the Target Group expended to develop such properties even if the amount of compensation to be awarded is based on the open market value of the properties acquired.

The business of the Target Group is subject to the influence of the PRC Government

The PRC Government has exercised and continues to exercise significant influence over the PRC's economy, particularly over the infrastructure and property business. Any action by the PRC Government concerning the economy or the infrastructure and real estate sectors can have an adverse effect on the operations and financial performance in the Target Group's business. Possible actions (some of which are existing implementations by the PRC Government) include:

(a) restrictions or requirements relating to land infrastructure, property developments and developers;

(b) regulatory restrictions imposed on PRC banks in extending financing to both infrastructure and property developers as well as end purchasers of property;

(c) the raising of interest rates applicable to housing loans;

(d) any changes in taxes levied on disposal of properties by consumers; and

(e) any other requirements which may lead to a delay in commencement of infrastructure or property development projects.

The Target Group face risks related to health epidemics and other outbreaks

The Target Group's business could be adversely affected by effects of avian flu, SARS, or other similar epidemics or outbreaks. Since March 2013, there were reports on the occurrences of avian flu in various parts of the PRC, including confirmed human cases. Any prolonged recurrence of avian flu, SARS or other adverse public health developments in the PRC may have a material adverse effect on the Target Group's business operations. These could include the temporary closure of construction sites. Such closures would severely delay the construction and delivery schedule of its projects and adversely affect the Target Group's results of operations. The Target Group has not adopted any preventive measures or contingency plans to combat any future outbreaks of avian flu, SARS or any other similar epidemics.

6. DISCLOSURE OF SHAREHOLDINGS

The interests of Directors and Substantial Shareholders in the Shares as recorded in the Register of Directors' Shareholdings and Register of Substantial Shareholders, respectively, as at the Latest Practicable Date, are as follows:

6.1 Interests of Directors

Save as disclosed in the table below, none of the Directors have any direct or deemed interests in the share capital of the Company or any of its subsidiaries.

	Direct Interest		Deemed Interest		Total Interest	
	Number of Shares	**%**	**Number of Shares**	**%**	**Number of Shares**	**%**
Shan Chang(1)	–	–	–	–	–	–
Zhang Rong Xiang(1)	2,566,000	0.29	–	–	2,566,000	0.29
Fong Weng Khiang	4,500,000	0.51	–	–	4,500,000	0.51
Zhu Jun	–	–	–	–	–	–
Chee Teck Kwong, Patrick	–	–	–	–	–	–
Shen Xia	–	–	–	–	–	–

Notes:

(1) Shan Chang and Zhang Rong Xiang are the directors of China Construction Group Inc., a substantial shareholder of the Company.

The details of the share options granted by the Company to the Directors pursuant to the CIHL Share Option Scheme approved by the Shareholders on 8 March 2010 are as follows:

Aggregate Options Name of Participant	Aggregate Options granted	Exercised	Date of grant	Expiry Date
Shan Chang	6,000,000	Nil	8 March 2010	7 March 2015
Zhang Rong Xiang	4,000,000	Nil	8 March 2010	7 March 2015
Fong Weng Khiang	1,500,000	Nil	8 March 2010	7 March 2015
Zhu Jun	4,000,000	Nil	8 March 2010	7 March 2015
Chee Teck Kwong, Patrick	1,500,000	Nil	8 March 2010	7 March 2015
Shen Xia	3,000,000	Nil	17 May 2010	16 May 2015

The details of the share options granted by the Company to the Directors pursuant to the CIHL Share Option Scheme approved by the Shareholders on 2 June 2011 are as follows:

Aggregate Options Name of Participant	Aggregate Options granted	Exercised	Date of grant	Expiry Date
Shan Chang	4,000,000	Nil	2 June 2011	1 June 2016
Zhang Rong Xiang	4,000,000	Nil	2 June 2011	1 June 2016
Fong Weng Khiang	2,500,000	Nil	2 June 2011	1 June 2016
Zhu Jun	4,000,000	Nil	2 June 2011	1 June 2016
Chee Teck Kwong, Patrick	2,500,000	Nil	2 June 2011	1 June 2016
Shen Xia	4,000,000	Nil	2 June 2011	1 June 2016

6.2 Interests of substantial shareholders

As at the Latest Practicable Date, the shareholdings of the substantial shareholders are as follows:

	Direct Interest		Deemed Interest		Total Interest	
	Number of Shares	%(*)	Number of Shares	%(*)	Number of Shares	%(*)
China Construction Group Inc	220,025,125	25.16	–	–	220,025,125	25.16
Wellful Holdings Limited	210,556,570	24.07	–	–	210,556,570	24.07
Century Investment Co., Limited	80,828,055	9.24	–	–	80,828,055	9.24
China Construction Holdings Limited(1)	–	–	220,025,125	25.16	220,025,125	25.16
Lin Rongqiang(2)	–	–	210,556,570	24.07	210,556,570	24.07
Mu Dejun(3)	–	–	80,828,055	9.24	80,828,055	9.24
Gong Xuan(3)	–	–	80,828,055	9.24	80,828,055	9.24

(*) – Based on 874,603,750 Shares issued as at the Latest Practicable Date

Notes:

(1) The sole shareholder of China Construction Group Inc is China Construction Holdings Limited, holding 100% of the total issued share capital. Therefore, China Construction Holdings Limited is deemed to be interested in the 220,025,125 shares beneficially owned by China Construction Group Inc by virtue of Section 4 of the Securities and Futures Act (Cap.289).

(2) The sole shareholder of Wellful Holdings Limited is Lin Rongqiang holding 100% of the total issued share capital. Therefore, Lin Rongqiang is deemed to be interested in the 210,556,570 shares beneficially owned by Wellful Holdings Limited by virtue of Section 4 of the Securities and Futures Act (Cap.289).

(3) The shareholders of Century Investment Co., Limited are Mu Dejun and Gong Xuan holding 70% and 30% respectively of the total issued share capital. Therefore, Mu Dejun and Gong Xuan are deemed to be interested in the 80,828,055 shares beneficially owned by Century Investment Co. Limited by virtue of Section 4 of the Securities and Futures Act (Cap.289).

7. MATERIAL CONTRACT OF THE CIH GROUP

Save as disclosed below, the CIH Group did not enter into any material contracts outside the ordinary course of business for the period of two (2) years immediate preceding the Latest Practicable Date :

(a) Pinnacle China Limited ("**PCL**"), a wholly owned subsidiary of the Company, entered into a loan agreement on 27 May 2011, with Future Trillion Holdings Limited ("**FTHL**"), a 25% owned associate company, under which PCL shall provide a loan facility in an amount not exceeding US$3,000,000 to FTHL. The said loan shall be used by FTHL for the purpose of providing funding and support to MKS Limited ("**MKS**"), a project company 80% owned by FTHL, for the works to be carried out in the oil field in Papua New Guinea ("PNG") over which MKS holds a Petroleum Prospecting License No. 294 issued by the Minister for Petroleum and Energy of PNG pursuant to Section 23 of the Oil and Gas Act of PNG in respect of the Fly River Map Sheet S.B. 54 oil field ("**Oil Field**"), and in particular, for the express purpose of funding the on-going exploration expenses in relation to the Oil Field and in particular to carry out seismic investigation and other ancillary and related expenses.

(b) The acquisition and debt assumption agreement (the "**Agreement**") entered into by the Company on 15 July 2011 with Suzhou Resources & Capital Associate Innovation Limited Liability Partnership (the "**Seller**") for the acquisition of 20% of the equity interest in Liuhe County Yukun Mining Co. Ltd. ("**Liuhe**") at the total acquisition price of RMB32,000,000; and the assumption of the pro rata share of Liuhe's existing debts to the Seller in the amount of RMB6,862,700, and the supplemental agreement to the Agreement with the Seller and Liuhe.

(c) PCL entered into a loan agreement on 2 September 2011, with FHTL, under which PCL shall provide a loan facility in an amount not exceeding US$3,000,000 to FTHL. The said loan shall be used by FTHL for the purpose of providing funding and support to MKS, a project company 80% owned by FTHL, for the works to be carried out in the oil field in PNG over which MKS holds a Petroleum Prospecting License No. 294 issued by the Minister for Petroleum and Energy of PNG pursuant to Section 23 of the Oil and Gas Act of PNG in respect of the Oil Field, and in particular, for the express purpose of funding the on-going exploration expenses in relation to the Oil Field and in particular to carry out seismic investigation and other ancillary and related expenses.

(d) PCL on 16 December 2011 entered into an investment agreement with FTHL, Mega Sino Investments Limited ("**MSIL**") and MKS for the subscription of an additional 388 new ordinary shares in FTHL, representing an increased shareholding in FTHL from 667 shares to 1055 shares (25% to 34.53%) of the enlarged issued and paid capital of FTHL at the total subscription price of US$3,500,000; and it was further agreed that MKS shall issue and allot to FTHL 757,000 new shares in MKS.

(e) The following definitive agreements were entered into in respect of the RMB Loan (as defined below) and the HK$ Loans (as defined below):

a. Memorandum of understanding dated 5 April 2012 (“**MOU**”) between CIHL (Tianjin) City Development Limited (“**PRC Lender**”), a wholly owned subsidiary of the Company and Beijing Shoulun Real Estate Development Co., Ltd. (“**PRC Borrower**”) in relation to a loan of RMB150,000,000 (“**RMB Loan**”) from the PRC Lender to the PRC Borrower;

b. Trust loan agreement dated 6 April 2012 in relation to the RMB Loan among the Bank of Ningbo Co., Ltd., Beijing Branch (“**Bank**”), the PRC Lender and the PRC Borrower dated 6 April 2012 (“**RMB Loan Agreement**”);

c. Loan agreement dated 5 April 2012 in relation to a loan of HK$159,400,000 (“**HK$ Loan A**”) between Zhonglun (Hong Kong) Ltd (“**HK Lender A**”) and China Infrastructure Management (Hong Kong) Limited (“**HK Borrower**”), a wholly owned subsidiary of the Company;

d. Loan agreement dated 5 April 2012 in relation to a loan of HK$25,198,582 (“**HK$ Loan B**”) between Victor Japan Co., Ltd (“**HK Lender B**”) and the HK Borrower; and

e. Letter of undertaking by Mr. Zei Ahei dated 5 April 2012.

HK Lender B is a Japanese company controlled by Mr Zei Ahei and the PRC Borrower is a property development company jointly controlled by a major international property investment company (the “**Developer**”) and Mr Zei Ahei. The PRC Borrower has entered into a development agreement with the land development authority of a district government in Beijing, PRC for the development of a piece of commercial land located in Beijing (the “**Beijing Project**”). The Developer intends to buy and Mr. Zei Ahei intends to sell 11.35% of his stake in the PRC Borrower to the Developer.

The RMB Loan will be utilised by the PRC Borrower for the purpose of financing the Beijing Project, while HK$ Loan A and HK$ Loan B are intended to make available funds to the HK Borrower for potential investments outside of the PRC. For the purposes of complying with PRC laws, and pursuant to the terms of the MOU, the principal amount of the RMB Loan shall be made by the PRC Lender to the Bank, which shall give a back to back loan of the same amount in RMB to the PRC Borrower. The principal amount of HK$ Loan A and HK$ Loan B collectively will be equivalent to the principal amount of the RMB Loan.

(f) SJLQ, a subsidiary of the Company, had on 31 July 2012 entered into an agreement, 《门头沟区采空棚户区改造城子村委会周边地块安置房建设项目合作协议书》with 北京市门头沟区采空棚户区改造建设中心（the “**Re-development Centre**”) on a cost-plus project management fee and the cost of project financing basis. The Re-development Centre is a governmental agency under the District Government of Men Tou Gou, Beijing, and is responsible for the residential relocation development projects in Men Tou Gou District. The project is situated in an area approximately 32,300 square metres in Men Tou Gou District. SJLQ will be responsible for the provision of project financing, site preparation and the construction of 119,500 square metres of relocation housing on the site.

(g) The Company entered into the Conditional STA on 15 September 2012 with the Vendor in relation to the Proposed Acquisition.

(h) The Company and the Vendor entered into an agreement on 2 January 2013 to extend the completion date of the Proposed Acquisition from 31 December 2012 to 31 March 2013 and the payment of the balance of the consideration from 31 March 2013 to 31 May 2013.

(i) The Company and the Vendor entered into an agreement on 28 March 2013 to further extend the completion date of the Proposed Acquisition from 31 March 2013 to 30 June 2013, and the payment of the balance of the consideration from 31 May 2013 to 31 July 2013.

(j) The Company and the Vendor entered into an agreement on 1 July 2013 to further extend the completion date of the Proposed Acquisition from 30 June 2013 to 31 August 2013 and the payment of the balance of the consideration from 31 July 2013 to 30 September 2013.

(k) The Company entered into the Supplemental STA on 19 July 2013 with the Vendor as a supplement to the Conditional STA. The salient terms of the Supplemental STA are set out in Section 1.2 of this Circular. Pursuant to the Supplemental STA, the Company and the Vendor agreed to further extend the completion date of the Proposed Acquisition from 31 August 2013 to 15 September 2013 and the payment of the balance of the consideration from 30 September 2013 to 15 October 2013.

8. MORATORIUM UNDERTAKING

The Proposed Acquisition, being within the ambit of Rule 1015, is subject to the moratorium requirements specified in Rule 229(1) of the Listing Manual, which, read with Rule 1015, Rules 226, 227 and 229, requires that:

(i) the controlling shareholders and their associates; and

(ii) executive directors with an interest of 5% or more of the issued share capital of the Company,

provide an undertaking to maintain the Relevant Person's effective interest in the securities under moratorium during the moratorium period of 6 months.

China Construction Group Inc and Wellful Holdings Limited are controlling shareholders of the Company.

Lin Rongqiang is the sole shareholder of Wellful Holdings Limited. China Construction Group Limited, Gold Ram International Group Limited, Besto Holdings Limited and Xiao Weihong are the direct and indirect shareholders of China Construction Group Inc.

Accordingly, in compliance with the moratorium requirements specified in Rule 229 of the Listing Manual, the parties named herein below have executed a Deed of Moratorium Undertaking in favour of the Company:

(i) Each of China Construction Group Inc and Wellful Holdings Limited has undertaken that they will not sell, transfer or otherwise dispose of any of the respective interests in the Shares held by them as at the date of completion of the Proposed Acquisition ("**Moratorium Shares**"), for a period of six (6) months commencing from the date of completion of the Proposed Acquisition ("**Moratorium Period**");

(ii) Lin Rongqiang, being the holder of 100% of the entire equity interests of Wellful Holdings Limited, has undertaken not to directly or indirectly dispose of all or any part of his interest in Wellful Holdings Limited during the Moratorium Period;

(iii) China Construction Group Holdings Limited, being the holder of 100% of the entire equity interests of China Construction Group Inc has undertaken not to directly or indirectly dispose of all or any part of his interest in China Construction Group Inc during the Moratorium Period;

(iv) Gold Ram International Group Limited, being the holder of 44.10% of the equity interests of China Construction Group Limited, has undertaken not to directly or indirectly dispose of all or any part of its interest in China Construction Group Limited during the Moratorium Period. The remaining 55.90% of the entire equity interests of China Construction Holdings are held in the hands of the public. China Construction Holdings has since been delisted from the Australian Securities Exchange on 27 March 2009[5];

(v) Besto Holdings Limited, being the holder of 100% of the entire equity interests of Gold Ram International Group Limited has undertaken not to directly or indirectly dispose of all or any part of its interest in Gold Ram International Group Limited during the Moratorium Period; and

(vi) Xiao Weihong, being the holder of 100% of the equity interests of Besto Holdings Limited, has undertaken not to directly or indirectly dispose of all or any part of his interest in Besto Holdings Limited during the Moratorium Period.

9. NO APPOINTMENT OF NEW DIRECTOR

No person is proposed to be appointed as a director of the Company and/or its subsidiaries in connection with the Proposed Acquisition or following completion of the Proposed Acquisition. Accordingly, no service contract is proposed (or contemplated) to be entered into between the Company and any such person.

10. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

None of the Directors or the controlling shareholders of the Company, or any of their associates, have any interest, direct or indirect, in the Vendor and/or the Proposed Acquisition.

To the best of the Directors' knowledge and belief, after making reasonable enquiries, none of the substantial shareholders of the Company and/or their associates, have any interest, direct or indirect, in the Vendor and/or the Proposed Acquisition.

The Vendor and/or its directors and controlling shareholders have no relationship, including any business connection, with the Company and/or its Directors and controlling shareholders.

11. OPINION OF THE AUDIT COMMITTEE

The Audit Committee, having reviewed and considered, inter alia, the terms and conditions of, financial effects of and rationale for and benefit of, the Proposed Acquisition as well as the Business Valuation Report of the Independent Valuer in respect of the Target Company and after discussions with the management of the Company, is of the view that the Proposed Acquisition is in the interests of the Company and the Shareholders.

12. DIRECTORS' RECOMMENDATION

Having taken into consideration the rationale for and benefits of the Proposed Acquisition and the Independent Valuer's Business Valuation Report, the Directors are of the opinion that the Proposed Acquisition is in the best interest of the Company. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Proposed Acquisition.

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[5] China Construction Holdings Limited ("CCHL") was delisted from the ASX on 27 March 2009 pursuant to ASX Listing Rule 17.12. The said Rule 17.12 provides that the ASX may remove an entity from the official list if, in ASX's opinion, any of the following applies:

- The entity is unable or unwilling to comply with, or breaks, a listing rule.
- The entity has no quoted securities.
- It is appropriate for some other reason.

CCHL's securities were suspended from trading on the ASX since March 2001 in view of CCH's financial difficulties and unresolved legal disputes.

13. SPECIAL GENERAL MEETING

The SGM, notice of which is set out on page SGM-1 of this Circular, will be held on 12 August 2013 at 9.30 a.m. at Marquis Room, Level 2 Copthorne King's Hotel, 403 Havelock Road, Singapore 169632, for the purpose of considering and, if thought fit, passing (with or without any modification) the resolution set out in the Notice of SGM.

14. ACTION TO BE TAKEN BY SHAREHOLDERS

14.1 Shareholders who are unable to attend the SGM and wish to appoint a proxy to attend and vote at the SGM on their behalf will find attached to this Circular a Shareholder Proxy Form which they are requested to complete, sign and return in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the offices of the Company's Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not less than forty-eight (48) hours before the time appointed for the SGM. The completion and return of a Shareholder Proxy Form by a Shareholder does not preclude him from attending and voting in person at the SGM in place of his proxy if he finds that he is able to do so, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

14.2 Depositors who wish to attend and vote at the SGM, and whose names are shown in the records of CDP as at a time not earlier than forty-eight (48) hours before the time appointed for the SGM supplied by CDP to the Company, may attend as CDP's proxies. Depositors who are individuals and who wish to attend the SGM in person need not take any further action and can attend and vote at the SGM without the lodgement of any proxy form.

14.3 Depositors who are not individuals and Depositors who are unable to attend personally and wish to appoint a nominee to attend and vote on his behalf as CDP's proxy, will find attached to this Circular a Depositor Proxy Form which they are requested to complete, sign and return in accordance with the instructions printed thereon as soon as possible and in any event, so as to arrive at the offices of the Company's Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. not less than forty-eight (48) hours before the time appointed for the SGM. The completion and return of a Depositor Proxy Form by a Depositor who is an individual does not preclude him from attending and voting in person as CDP's proxy at the SGM in place of his nominee if he finds that he is able to do so, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

15. VENDOR'S RESPONSIBILITY STATEMENT

The Vendor accepts full responsibility for the accuracy of the information given in this Circular in connection with the Proposed Acquisition and confirm after making all reasonable enquiries that, to the best of the Vendor's knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Target Group and the Vendor in connection with the Proposed Acquisition, and the Vendor is not aware of any facts the omission of which would make any statement in this Circular misleading.

Where information in the Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Vendor has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Circular in its proper form and context.

16. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Acquisition, the issuer and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading.

Where information in the Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Circular in its proper form and context.

17. FINANCIAL ADVISER'S RESPONSIBILITY STATEMENT

To the best of the Financial Adviser's knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Acquisition, the issuer and its subsidiaries, and the Financial Adviser is not aware of any facts the omission of which would make any statement in the document misleading.

18. CONSENTS

18.1 Daiwa Capital Markets Singapore Limited, the Financial Adviser to the Company in relation to the Proposed Acquisition, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and all references to its name in the form and context in which it appears in this Circular and to act in such capacity in relation to this Circular.

18.2 Roma Appraisals Limited, the Independent Valuer to the Proposed Acquisition, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of the Independent Valuer's Business Valuation Report and all references to its name in the form and context in which it appears in this Circular and to act in such capacity in relation to this Circular.

18.3 Nexia TS Public Accounting Corporation, the Independent and Reporting Auditor to the Company, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of:

(i) its name and references to its name;

(ii) the Independent Auditor's Report of the Consolidated Financial Statements of Yichang Xinshougang Property Development Company Limited and its Subsidiary for the Financial Years ended 31 December, 2011 and 2012; and

(iii) the Independent and Reporting Auditor's Report on Examination of the Unaudited Pro Forma Consolidated Financial Statements of the Enlarged Group for the Financial Years ended 31 December 2010, 2011 and 2012.

and references to its name in the form and context in which it appears in this Circular and to act in such capacity in relation to this Circular.

18.4 Each of Harry Elias Partnership LLP and Chang An Law Firm has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and all references to its name in the form and context in which it appears in this Circular and to act in such capacity in relation to this Circular. Each of Harry Elias Partnership LLP and Chang An Law Firm does not make or purport to make any statement in this Circular or any statement upon which a statement in this Circular is based and, to the maximum extent permitted by law, expressly disclaim and take no responsibility for any liability to any persons which is based on, or arises out of this statement, information or opinions of this Circular.

18.5 Hubei Huahai Accounting Co. Ltd has given and has not withdrawn its written consent to being named in this Circular as the statutory auditor of the Target Group for FY2010, and FY2011.

18.6 Hubei Huashen Accounting Co. Ltd has given and has not withdrawn its written consent to being named in this Circular as the statutory auditor of the Target Group for FY2012.

19. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the Company's Share Transfer Agent Boardroom ,Corporate & Advisory Services Pte Ltd at 50 Raffles Place, #32-01 Singapore Land Tower Singapore 048623, during normal business hours for a period of six months from the date of this Circular:-

(a) the Conditional STA;

(b) the Supplemental STA;

(c) the Independent Valuer's Business Valuation Report;

(d) the Deed of Moratorium Undertaking referred to in section 7 of this Circular;

(e) the Letters of Consent referred to in section 18 of this Circular;

(f) the Independent Auditor's Report of the Consolidated Financial Statements of Yichang Xinshougang Property Development Company Limited and its Subsidiary for the Financial Years ended 31 December 2010, 2011 and 2012;

(g) the Independent and Reporting Auditor's report on Examination of the Unaudited Pro Forma Consolidated Financial Statements of the Enlarged Group for the Financial Years ended 31 December 2010, 2011 and 2012;

(h) the Memorandum of Association and Bye Laws of the Company; and

(i) the Annual Report of the Company for FY2012.

20. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices of this Circular.

Yours faithfully

For and on behalf of
CHINA INTERNATIONAL HOLDINGS LIMITED

SHAN CHANG
Non-Executive Chairman

1. BACKGROUND AND HISTORY

The Target Company is a property holding and property development company established in the PRC with limited liability. It is a wholly owned indirect subsidiary of the Vendor. Please refer to Section 16 entitled "The Vendor" to this Appendix A for details of the Vendor.

The Target Company (company registration number 420521000003848) was incorporated on 31 December 2006 with its registered office at 166-6 Fa Zhan Road, Yiling District, Yichang City, Hubei Province, PRC, telephone number 0717-6268962 and facsimile number 0717-6268961. The registered capital of the Target Company is RMB120 million as at the Latest Practicable Date. The Target Company has one director who is Mr Fung Tsun Pong, who is part of the management of the Target Company. Please refer to Section 5 entitled "Management Structure" to this Appendix A for further details of the management of the Target Company.

The Target Company's main business is in property development and property management, and is also licensed to provide asset management and investment advisory services.

The Target Company owns the land use right to the Project Land for the development of the Project.

The Target Company holds 70% equity interest in ZX Property Management. ZX Property Management is a limited liability company incorporated in the PRC on 21 November 2012, with its registered office at 166-6 Fa Zhan Road, Yiling District, Yichang City, Hubei Province, PRC, and a registered capital of RMB500,000. ZX Property Management has its main business in property management, exhibition and conference services, domestic cleaning services and valet parking services. ZX Property Management was established to provide property management services to the properties developed by the Target Company to ensure that the quality of management service is under the control of the Target Company. ZX Property Management has no plan to provide services to any external parties. The remaining 30% equity in ZX Property Management is held by the general manager of ZX Property Management, Mr. Liu Changqiao. Mr Liu Changqiao is an independent third party.

2. BUSINESS OVERVIEW

The Project is an integrated development that offers a total GFA of 777,770 square metres comprising residential units, commercial units, the Yichang Convention Centre, and the Yichang Hotel. The Project will be developed in phases over the next 3-5 years; once developed, it will be a major land mark in Yichang City, the second largest city in Hubei Province, PRC.

2012-2013

2011 was the first year the Project entered into sales and pre-sales. In addition to the sales of RMB171,429 million recorded for 2012, pre-sales of RMB45.6 million were achieved in 2012. The pre-sales were related to the commercial space of Area 3 and residential units of Area 1. These pre-sales will be recognised as sales in the first half of 2013 when the units are delivered to the buyers.

As at the end of June 2013, all units in Area 1 and Area 3 of Phase I have been launched for sale. The total number of units available for sale is 613, of which 366 units (59.7%) and 96 units (15.7%) were sold in 2012 and in the first half of 2013, respectively. As at the end of June 2013, the number of unsold units is 151, accounting for 24.6% of total units from Area 1 and Area 3 of Phase I. The construction of Area 2 of Phase I and Phase II are expected to commence in the second half of 2013.

At the end of 2012, the Project has a saleable inventory of 247 units with a total GFA of approximately 62,423 square metres, including 115 residential units with a total GFA of approximately 16,971 square metres; and 34 commercial units with a total GFA of approximately 7,540 square metres from Area 3, and 98 residential units with a total GFA of approximately 37,912 square metres from Area 1. These will be main inventory of property units for sale in FY2013.

The average prices for each type of unit achieved in FY2012 based on sales and pre-sales are as follows:

Area 1

Type of apartment	Average price (per square metre)
Detached houses	RMB15,967
Townhouses	RMB6,213
Duplex apartments	RMB8,889
Low rise walk up apartments	RMB6,864

Area 3

Type of apartment	Average price (per square metre)
High-rise apartments	RMB4,457
Commercial space	RMB10,063
Car park spaces	No sales achieved

The Target Group has sold and is selling property units from Area 1 and Area 3 simultaneously. Area 1 comprises mainly of low-rise houses and apartments; Area 3 consists of high-rise apartments and commercial spaces. Because of the different completion schedules, sales and pre-sales of these units have been recognized as revenue at different times. The actual and anticipated completion schedules for Area 1 and Area 3 are as follows:

(i) Area 1: completed before the end of June 2013

(ii) Area 3 apartments: completed before the end of December 2012

(iii) Area 3 commercial spaces: completed before the end of March 2013

The estimated gross profit margins for the various types of properties based on the 2012 financial information are as follows:

(i) High-rise apartments: Approximately 35%

(ii) Low-rise houses and apartments: Approximately 67%

(iii) Commercial spaces: Approximately 71%

Commercial spaces and low-rise houses which have higher gross margin are expected to be completed in 2013 while the lower margin high-rise apartments were completed in 2012.

Based on the prices achieved in 2012 and the completion schedule, it is expected that the remaining units from Area 3 and Area 1 will provide better gross margins as the majority of units available for sales and pre-sales from Area 1 and Area 3 are high-priced commercial spaces and low-rise residential units.

In the first half of 2013, the Target Company will fine-tune the design and commence construction of Area 2 of Phase I. Area 2 comprises low-rise housing units, with a total of 62 residential units and 105 car parking units and with a GFA of approximately 28,581 square metres. The Target Company's plan is for Area 2 to commence construction in the second half of 2013 and be available for pre-sale before the end of 2013. The Area 2 design draws experience from Area 1 and is expected to better meet the demand from potential home buyers.

The Target Company is also preparing the initial design proposal for Phase II for approvals by the planning authority. Phase II is expected to comprise of one single block of high-rise apartments and associated commercial and retail spaces. Based on the conceptual plan, Phase II occupies a total GFA of approximately 231,666 square metres, and is expected to have 1,442 units of high-rise apartments and associated commercial spaces. The proposal for Phase II is expected to be submitted in the first half of 2013 and construction is expected to commence before the end of 2013. As Phase II comprises high-rise apartment buildings, it has a longer construction period as compared with Area 2 of Phase I. The pre-sale of Phase II is expected to start in late 2013 or early 2014 and the completion of Phase II is expected in 2015. The Target Company is considering creative marketing and financing plan for Phase II, drawing experience from the marketing and sales of Area 3.

The construction of the Yichang Convention Centre resumed following the change of the contractor with new contractor, Chongqing Huasheng Construction and Engineering Group Company Limited (重庆市华升建筑工程集团有限公司) being appointed. Under the revised plan, the civil work on the Yichang Convention Centre will be completed in the second half of 2013 and construction works will be completed in mid-2014. The Yichang Convention Centre is expected to commence operation from late 2014 or early 2015. The Target Company is in the process of formulating the operating plans for the Yichang Convention Centre.

Beyond 2013

The Target Company plans to start the site preparation for Phase III in late 2013 which lies to the north of the Yichang Convention Centre. The current plan is to prepare conceptual designs for Phase III based on the demand information from the sales and pre-sales from the Phase I and Phase II. The Target Company will design products so as to provide prospective customers with differentiated and value for money products. Phase III is expected to have GFA of approximately 337,659 square metres and to commence construction during 2015-2016. The planned dates of construction for Phase III are preliminary and subject to changes in the market.

The Target Company plans to commence the design for the hotel after the Yichang Convention Centre comes into operation. The actual construction of the hotel will commence around late 2015 to early 2016. The design parametres for the Yichang Hotel may change depending on the conditions of the hotel market in Yichang at the time. Under the Project development plan, the Yichang Hotel will have a total GFA of approximately 48,515 square metres.

3. PERMITS, APPROVALS AND REGISTRATIONS

As at the Latest Practicable Date, the Target Company has obtained the following salient permits, approvals and registrations:

S/No.	Licence Name	Issuing Authority	Licence Number	Effective Date	Expiry Date
(i)	Business License for Enterprise Legal Person (《企业法人营业执照》)	Yichang City Yiling District Administration for Industry and Commerce (宜昌市夷陵区工商行政管理局)	420521000003848	2 April 2013	30 December 2056
(ii)	Tax Registration Certificate (《税务登记证》)	Yichang City Yiling District Local Tax Bureau and Yichang City Yiling District National Tax Bureau (宜昌市夷陵区地方税务局、宜昌市夷陵区国家税务局)	Local Tax E Zi No. 420506795925807 (地税鄂字420506795925807号)	20 March 2010	No Expiry Date

S/No.	Licence Name	Issuing Authority	Licence Number	Effective Date	Expiry Date
(iii)	Social Insurance Registration Certificate (《社会保险登记证》)	Yichang City Yiling District Social Insurance Management Bureau (《宜昌市夷陵区社会保险事业管理局》)	Social Insurance E Zi No. 420521150000l446 (社险鄂字420521150000l446号)	7 May 2010	7 May 2015
(iv)	Construction Project Planning Permit for Phase I Area 1 of the Project (with a land area of 40409.79m^2) (《建设工程规划许可证》)	Yichang City Planning Bureau Yiling Branch (宜昌市规划局夷陵分局)	Jian Zi Di Yi Gui Yi Jian Yong (2011) No. 056 (建字第宜规夷建永(2011)056号)	4 November 2010	No Expiry Date
(v)	Construction Project Planning Permit for Phase I Area 3 of the Project (with a land area of 76943.1m^2) (《建设工程规划许可证》)	Yichang City Planning Bureau Yiling Branch (宜昌市规划局夷陵分局)	Jian Zi Di Yi Gui Yi Jian Yong (2010) No. 141 (建字第宜规夷建永(2010)141号	4 November 2010	No Expiry Date
(vi)	Construction Project Planning Permit for Phase II of the Project (with a land area of 62511.03m^2) (《建设工程规划许可证》)	Yichang City Planning Bureau Yiling Branch (宜昌市规划局夷陵分局)	Jian Zi Di Yi Gui Yi Jian Yong (2011) No. 129 (建字第宜规夷建永(2011)129号	6 December 2012	No Expiry Date
(viii)	Construction Project Commencement Permit for Phase I Area 1 of the Project (with a land area of 40409.79m^2) (《建筑工程施工许可证》)	Yichang City Yiling District Housing and Urban-Rural Development Bureau (宜昌市夷陵区住房和城乡建设局)	422721201108150301	15 August 2011	No Expiry Date
(ix)	Construction Land Planning Permit (《建设用地规划许可证》)	Yichang City Planning (宜昌市规划局)	Yi Shi Gui Yong Di (2007) No. 012 (宜市规用地(2007) 012号)	9 April 2007	No Expiry Date
(x)	Class 3 Qualification Certificate for Real Estate Development Enterprise in the PRC (《叁级房地产开发企业资质证书》)	Hubei Provincial Department of Housing and Urban-Rural Development (湖北省住房和城乡建设厅)	E Fang Kai 2013 No. 013 (鄂房开2013 E30005号)	13 June 2013	13 June 2016

As at the Latest Practicable Date, to the best of the Directors' knowledge and information, the Target Group possesses all the necessary business licences and permits which are material to the Target Group's business operations in the PRC, and are in compliance with all applicable PRC laws and regulations which are material to the Target Group's business operations. A summary of the relevant PRC laws and regulations relevant to the Target Group is set out in Appendix B of this Circular entitled "Summary of Relevant PRC Laws and Regulations".

Separately, the Vendor has confirmed to the Company that as at the Latest Practicable Date, the Target Company possesses all the necessary business licences and permits which are material to the Target Group's business operations in the PRC, and are in compliance with all applicable PRC laws and regulations which are material to the Target Group's business operations.

4. ORGANISATION STRUCTURE

The following chart sets out the corporate structure of the Target Company and its consolidated subsidiaries as at the Latest Practicable Date.

5. MANAGEMENT STRUCTURE

5.1 Management Team

In accordance with PRC law, the Target Company has an executive director and a supervisor. The current management team of the Target Company comprises of one general manager, two deputy general managers and one chief accountant. The Company intends to retain the employment of the management team for their expertise and experience in the relevant fields following the Completion of the Proposed Acquisition.

The management of the day-to-day operations of the Target Company are carried out by its management team and the executive director. The executive director and supervisor are elected through a general meeting of shareholders. The rights and obligations of the executive director, the supervisor and each person in the management team are regulated by the Target Company's articles of association, and by the decisions of shareholders in shareholders' meetings.

The Target Company has 6 major departments – namely (i) the human resources and administration department, (ii) the project management department, (ii) the contract budgeting department, (iv) the finance department, (v) the sales departments and (vi) the planning department.

As the Target Company is a wholly-owned subsidiary of the Vendor which is a listed company, all management personnel in the current management team has working experience in a subsidiary of a listed company. Detailed description of the management team is as follows:

(a) Mr Fung Tsun Pong

Mr Fung Tsun Pong (冯俊榜), aged 52, is the director of the Target Company. He joined the Target Company in February 2010. He is also the vice chairman and executive director of the Vendor. Mr Fung was appointed as an executive Director of the Vendor since 22 September 2004. Mr Fung has over 20 years of experience in property development, logistics, investment banking and company management. Mr Fung has held senior management positions in various companies incorporated in Hong Kong, British Virgin Islands and Samoa prior to joining the Vendor.

(b) Mr Chai Bo

Mr Chai Bo (柴波), aged 45, is the general manager of the Target Company. Mr Chai joined the Target Company in October 2012. He oversees the overall planning and execution of the development of the Project. Mr Chai has legal qualifications with over 20 years of experience in property development. In 1999, Mr Chai joined Beijing Huayuan Real Estate Company Limited, a listed company in the PRC, as a project manager, where he was in charge of the development of a real estate project. In 2003, Mr Chai joined Beijing Haotian Real Estate Broker Company Limited, a subsidiary of a listed company, as a general manager, where he was in charge of the overall management of the Company. From 2006 to 2012, Mr Chai was the general manager of SJLQ, which was subsequently acquired by the Company in 2010. In 2012, Mr Chai was nominated by the Company and appointed by the Vendor to the Target Company as general manager. Mr Chai graduated from Xian University of Technology and Science with a degree in mechanical design in 1990.

(c) Mdm Feng Xin

Mdm Feng Xin (冯鑫), aged 55 is the deputy general manager of the Target Company. Mdm Feng joined the Target Company in 2009. She is a construction economist (a regulated profession in the PRC, similar to a surveyor or construction cost analyst) with over 30 years of experience in project budgeting and management, including 20 years at the management level. Mdm Feng began her career in 1985 as a construction budget analyst and deputy head of the budgeting department and was later promoted in 1998 to be the head of the development department of Inner Mongolia No. 3 Electric Engineering and Construction Company Limited. In 2008, Mdm Feng joined Shenzhen Shuren, a subsidiary of the Vendor, as the head of construction department. Mdm Feng graduated from Baotou Iron and Steel College with a degree in industrial and civil engineering in 1982. Mdm Feng is the sister of Mr Fung Tsun Pong, executive director of the Target Company.

(d) Mr Xu Zhenghe

Mr Xu Zhenghe (徐正鹤), aged 61, is the deputy general manager of the Target Company. Mr Xu joined the Target Company in October 2012. Mr Xu is responsible for the engineering and construction management of the Project. Prior to joining the Target Company, Mr Xu served in senior engineering and management positions with several construction and project development companies for over 30 years. From 1990 to 1995, Mr Xu was a manager of the engineering department of Shenzhen Futian Development Company Limited. From 1995 to 2004, Mr Xu was a deputy general manager and chief engineer of Shenzhen Ruiwo Construction Company Ltd, and a deputy general manager of Shenzhen Ruiwo Yitian Real Estate Development Company Ltd. Mr Xu then joined Beijing Donglong Real Estate Development Company Ltd as a deputy general manager. From 2006 to 2012, Mr Xu was the general manager of Tianjin Xinbei Construction Company Ltd and CIH Tianjin. Mr Xu graduated from Tongji University in Shanghai with a degree in civil engineering in 1977. He is a senior engineer and a registered consultant engineer recognised by the Ministry of Housing and Urban-Rural Development of the PRC.

(e) Mr Song Shuguang

Mr Song Shuguang (宋曙光), aged 36, is the chief accountant of the Target Company. Mr Song joined the Target Company in January 2013. Mr Song has over 13 years of experience in accounting, financial management and corporate tax. Mr Song started his career in 1999 as a finance manager of CIH Andi Bridge Company Ltd, a subsidiary of the Company. In 2010, he joined Tianjin CIH as a finance manager. He graduated from Nanjing Finance and Economics University in 1999 with a degree in finance and accounting. Mr Song is a certified public accountant and a certified tax agent in the PRC.

None of the Target Company's management team members, as at the Latest Practicable Date:

(a) has at any time during the last ten years, had an application or a petition under any bankruptcy laws of any jurisdiction filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within two years from the date he ceased to be a partner;

(b) has at any time during the last ten years, had an application or a petition under any law of any jurisdiction filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within two years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency;

(c) has any unsatisfied judgment against him;

(d) has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty, which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose;

(e) has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach;

(f) has at any time during the last ten years, had judgment entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part;

(g) has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust;

(h) has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust;

(i) has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity;

(j) has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:

    (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere;

    (ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere;

    (iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or

(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during the period when he was so concerned with the entity or business trust; or

(k) has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or governmental agency, whether in Singapore or elsewhere.

Pursuant to the terms of the Sale and Purchase Agreement, after Completion, the board of directors of the Target Company shall consist of 5 directors, the Company shall appoint 3 directors and the Vendor shall appoint 2 directors to the board of directors of the Target Company.

The Company intends to nominate the following existing Director and/or executive officers of the Company to the board of directors of the Target Company and ZX Property Management on Completion:

(i) Mr Shan Chang (Non-Executive Chairman of the Company)

(ii) Mr Zhang Rongxiang (Managing Director of the Company)

(iii) Mr Shen Xia (Executive Director of the Company)

Based on the Company's latest understanding, the Vendor intends to only nominate one person, Mr Fung Tsun Pong, who is also the current director of the Target Company and ZX Property Management, into the board of directors of the Target Company and ZX Property Management on Completion. There has been no existing service agreement between Mr Fung and the Target Company or ZX Property Management, and no service agreement will be entered into between Mr Fung and the Target Company or ZX Property Management pursuant to the Proposed Acquisition. The role of Mr Fung is to act as a representative of the Vendor in the Target Company and ZX Property Management.

The proposed management reporting structure of the Target Company after Completion of Proposed Acquisition is as follows:

5.2 Legal Representative

The current legal representative of the Target Company and ZX Property Management is Mr Fung Tsun Pong. More information on Mr Fung can be found in Section 5.1(a) of this Appendix A. The Conditional STA provides that the legal representative of the Target Company and ZX Property Management shall be appointed by the Company. The Shareholders Agreement also provides that the Company and the Vendor shall cause the articles of association of the Target Company and ZX Property Management to be amended to provide that the legal representative of the Target Company and ZX Property Management shall be appointed by the Company.

Following completion of the Proposed Acquisition, Mr Shen Xia, an Executive Director of the Company, will be appointed as the legal representative of the Target Company and ZX Property Management. The Company has taken the following factors into consideration when appointing the legal representative:

(i) the qualifications and experience of the person; and

(ii) the person's knowledge of the property market.

The legal representative is authorised to perform all acts regarding the general administration of the Target Company and ZX Property Management. He can also execute powers of attorney on behalf of the Target Group and execute any legal transactions that are within the nature and the scope of business of the Target Group.

There is a risk that the Target Group will be held liable should its legal representative perform any unauthorised actions on its behalf. In this regard, the following measures will be implemented in order to mitigate such a risk:

(i) an internal control system to ensure that there is proper authorisation as to disbursements and delegation of authority;

(ii) safeguarding controls over all the company seals and cheque books; and

(iii) ensuring segregation of duties in the cash management process including receipts and disbursements.

Based on the above, the Directors are of the opinion that the processes and procedures to be put in place will be adequate to mitigate the risks in relation to the appointment of the legal representative of the Target Group.

6. THE PROJECT LAND AND THE PROJECT

6.1 Details on the Project Land

The Target Company holds the land use rights of the Project Land. The Project Land was initially acquired by the Target Company through a public auction from the PRC Government in year 2006 at the consideration of RMB224,340,000 which has been fully paid by the Target Company.

On 29 December 2006, the Target Company and the Yichang Yiling District Land Resources Bureau entered into the Land Use Right Transfer Agreement for the Project Land. The salient terms of the said agreement are as follows:

(i) the Project Land shall be used for commercial, tourism, research centre and/or residential purposes;

(ii) demolition works were to be completed before 31 May 2007;

(iii) the land use is subject to a term of 40 years for commercial and tourism purposes, and 70 years for residential purposes;

(iv) the plot ratio is to be not more than 1.0;

(v) the building density is to be less than 25%;

(vi) the landscaping ratio is to be equal to or more than 40%;

(vii) the commencement date of the Project shall be 30 June 2007;

(viii) if the construction works does not commence and is delayed by more than one year after the commencement date, the Target Company would be subject to a penalty equal to 20% of the land use premium, being RMB44,868,000 for land idling; and

(ix) if the construction works does not commence and is delayed by more than two years after the commencement date, the Yichang Yiling District Land Resources Bureau is entitled to repossess the land use right without compensation.

The Target Company subsequently entered into a supplemental agreement to the Land Use Right Transfer Agreement ("Supplemental Land Use Right Transfer Agreement") with the Yichang Yiling District Land Resources Bureau on 29 December 2006. Pursuant to this Supplemental Land Use Right Transfer Agreement, the parties agreed that the Target Company shall complete the Project by 30 June 2009. In March 2007, The Target Company obtained the land use rights certificate issued by the Yichang Yiling District Land Resources Bureau in respect of the legal land use rights of the Project Land.

The land use premium of the Project Land, being RMB224,340,000 has been fully paid by the Target Company.

Due to the size of the Project, the first Construction Project Commencement Permit, being that of Phase I Area 3 of the Project, was only granted on 25 March 2011. As a result, the Project commenced on 25 March 2011, following the grant of the first commence permit, which was approximately 1 year and 9 months after the stipulated commencement date. The Target Company may therefore be subjected to a penalty of RMB44,868,000 as stated in the agreement. However, this penalty has been waived by a written confirmation from the Yichang Yiling District Land Resources Bureau （宜昌市夷陵区国土资源局）on 11 April 2013, indicating that:

(i) the Target Company, in the development of the Project and usage of the land, has duly reported its progress to the Yichang Yiling District Land Resources Bureau and has obtained the Yichang Yiling District Land Resources Bureau's full approval and consent;

(ii) the Target Company has not contravened any laws and regulations in the development of the Project; and

(iii) the Target Company has not breached the agreements entered into between the Target Company and the Yichang Yiling District Land Resources Bureau in relation to the Project Land.

6.2 Project Details

An artist impression of the Project located next to the Meiziya reservoir

Pursuant to the grant of land use rights of the Project Land obtained by the Target Company on 29 December 2006, the Project Land is subject to a right to use of land as follows:

(a) 40 years up to 28 December 2046 for commercial, tourism and convention purposes; and

(b) 70 years up to 28 December 2076 for residential purposes.

After obtaining the land use rights, the Target Company proceeded to formulate the overall development plan and subsequently obtained the various construction permits for Phase I and Phase II of the Project as set out in Section 3 of this Appendix A. Given the large size of the Project and its multiple components, the overall development plan was finalised in April 2010 after several rounds of consultation and review by the relevant expert panels and government authorities. The Directors are of the view that such a long lead period is normal given the physical size and the complexity of the Project.

Based on the overall development plan finalised in April 2010 ("Project Development Plan"), the Project Land has a total site area of approximately 587,726 square metres and a total GFA of approximately 777,770 square metres, of which, 587,720 square metres are above ground constructions and 190,050 square metres are underground constructions. In accordance with the Land Use Right Transfer Agreement, the Project has a plot ratio of 0.99, a building density of 14.9%, and a landscaping area of 66.8%. The Project consists of the Yichang Convention Centre, the Yichang Hotel, and the Yichang Commercial Property. Please refer to the sections below for a detailed description of each component of the Project as described:

6.2.1 **Yichang Commercial/Residential Property**

(i) High-rise apartment buildings consisting of apartment units with a total GFA of approximately 356,983 square metres;

(ii) Low-rise houses and apartments comprising:

1. Detached houses: Detached houses with European design, with total GFA of approximately 24,000 square metres;

2. Townhouses: Townhouses with a total GFA of approximately 31,383 square metres;

3. Duplex apartments: Duplex apartments with a total GFA of approximately 8,458 square metres;

4. Low-rise walk-up apartments: Low rise walk-up apartment units with a total GFA of approximately 32,933 square metres;

(iii) Commercial properties occupying the ground floor of the high-rise apartment buildings as well as the spaces connecting the high-rise apartment buildings, comprises a total GFA of approximately 40,000 square metres of retail and commercial units and other facilities including a club house and kindergarten with total GFA of approximately 10,000 square metres. It is contemplated that some of these commercial properties will be available for sale while some will be managed and owned by the Target Group for rental income. As at the Latest Practicable Date, the allocation of such units for retention and sale has not yet been determined and may change depending on market conditions and the development of the Project.

6.2.2 **Yichang Convention Centre**

The Yichang Convention Centre, upon completion, is expected to have a total GFA of approximately 62,511 square metres, with four storeys above ground and two storeys underground. The area above ground will be approximately 37,000 square metres while the area underground is approximately 25,000 square metres.

The Yichang Convention Centre is expected to comprise of an exhibition hall of approximately 8,000 square metres, a lecture hall that can accommodate up to six hundred people, a conference hall that can accommodate up to three hundred people, a movie video hall that can accommodate up to three hundred people, several media rooms, which can each accommodate more than one hundred people, conference rooms, as well as 280 parking spaces.

Upon completion, the Company intends to enter into a property management agreement to appoint professionals to manage the Yichang Convention Centre on its behalf.

6.2.3 **Yichang Hotel**

The Yichang Hotel will be a five-star hotel development with a total GFA of approximately 48,515 square metres, with a combination of standard rooms, deluxe rooms and suites. The Company intends to enter into a hotel management agreement to appoint a professional hotel management company to manage the hotel.

6.3 Development Plan and Status

The Project is being developed in three phases as follows:

(a) Phase I:

Phase I comprises total GFA of approximately 208,445 square metres, with a development cost of approximately RMB667 million. Phase I is further divided into four components– high-rise and low-rise apartments and commercial units with underground carparks, to be developed in 4 Areas – Area 1, Area 2 and Area 3 and the Yichang Convention Centre.

Area 1

Photograph of low-rise properties in Area 1

Area 1 of Phase I comprises of 28 units of detached houses, 44 units of townhouses, 20 units of duplex apartments, and 16 units of low-rise walk-up apartments. As at the Latest Practicable Date, Area 1 has been completed and the Target Group has obtained the completion certification from the Yichang City Yiling District Real Estate Administration Bureau.

Area 2

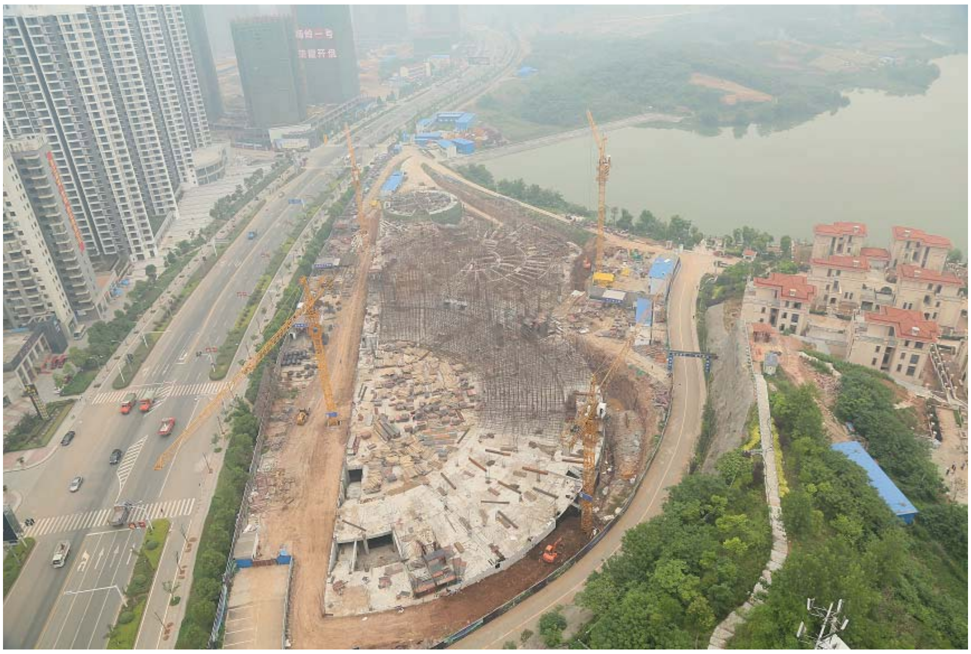
Area 2 of Phase 1, comprising low-rise apartments and houses, is still at final design and approval stage. Construction is expected to commence in the second half of 2013, and expected to be completed in 2014.

Area 3

Photograph of high-rise apartments in Area 3

Area 3 of Phase 1 comprises of 462 units of high-rise apartments, 43 units of commercial spaces and 290 parking spaces. As at the Latest Practicable Date, Area 3 of Phase 1 has been completed.

Yichang Convention Centre



Photograph of Yichang Convention Centre (built up to ground level)

As at the Latest Practicable Date, the foundation infrastructure, including excavation, piling and pile caps of the underground areas of the Yichang Convention Centre, has been completed and the Yichang Convention Centre is expected to be completed in May 2014.

(b) Phase II:

Phase II, comprising a total GFA of approximately 231,666 square metres, will consist of 1442 high and low-rise residential property units and commercial units, with a development cost of approximately RMB741 million. The preliminary design for Phase II development has already commenced and construction is expected to commence in late 2013 and expected to be completed in 2015.

(c) Phase III:

Phase III will consist of the Yichang Hotel and the remaining residential and commercial properties (comprising a total GFA of approximately 337,659 square metres) with a development cost of approximately RMB1.08 billion. Phase III is expected to commence in late 2014.

Construction for the Yichang Hotel project has yet to commence. This hotel project is expected to be the final component of the Project to be completed.

Shareholders are to note that the mix of the type of properties constructed under each phase may change over time within the key parametres. The phases and each part of a phase may not be constructed in the order in which they are planned. The Company will monitor the projected cash flow of the Project from time to time and will adjust the development plan and construction programme as and when necessary.

6.4 Development Cost and Funding

Based on current plans and costing estimates as at the Latest Practicable Date, the estimated total development cost of developing the Project is approximately RMB2.5 billion. The Target Group intends to fund the development of the Project through the Shareholders' Loan, internal cash flow and bank borrowings. Based on the Target Company's cash flow and bank financing arrangements, the CIH Group does not expect to contribute any new shareholders' loan or equity to fund the development of the Project by the Target Group.

Phase I

Based on current plans and costing estimates as at the Latest Practicable Date, the estimated total development cost of developing Phase I of the Project is approximately RMB667 million.

China Construction Bank, Xiling Branch has granted a loan facility of RMB150 million, of which approximately RMB97 million is being utilised for the development of Phase I of the Project (excluding the Yichang Convention Centre) as at the Latest Practicable Date. Please refer to Section 15.1 entitled "Loan Agreement" of this Appendix A to this Circular for further details on the loan facility.

Phase II

The Target Group is currently in discussions with the China Construction Bank for the grant of a new loan facility of RMB300 million for construction of the Yichang Convention Centre and Phase II of the Project. As at the Latest Practicable Date, the new loan facility has not yet been finalised.

In addition to the new loan facility, the Target Group intends to fund Phase II of the Project with the proceeds from Phase I of the Project and if required, through additional bank loan facilities. Based on current plans and costing estimates as at the Latest Practicable Date, construction of Phase II is to commence in late 2013 or early 2014 and the estimated total development cost of developing Phase II is approximately RMB741 million.

Phase III

As at the Latest Practicable Date, the Target Company has not finalised the detailed development plans for Phase III of the Project. Based on current plans and costing estimates as at the Latest Practicable Date, site preparations of Phase III is to commence in late 2013, and the estimated total development cost of developing Phase III is approximately RMB1.08 billion. The Target Group intends to fund the development of Phase III through proceeds from the sale of units in Phase I and Phase II, the Shareholders' Loan, internal cash flow and if required, further bank borrowings.

6.5 Sale Status

Sales and pre-sales for Area 1 and Area 3 of Phase I have commenced and all sold units were sold to independent third parties. The following table sets out the number of units sold following sales and pre-sales as at 30 June 2013:

Phase/Area	Total number of units available for sale	Units sold in FY2012	Units sold in FY2013 up to 30 June 2013	Units in inventory as at 1 July 2013
Phase 1 Area 1	108	10	17	81
Phase 1 Area 3 – High-rise apartments	462	347	63	52
Phase 1 Area 3 – Commercial units	43	9	16	18
Phase 1 Area 3 – Car park units	290	0	9	281

The average sale prices of Area 1 based on pre-sales and sales in FY2012 are as follows:

Types of residential units	Average price (per square metre)
Detached houses	RMB15,967
Townhouses	RMB6,213
Duplex apartments	RMB8,889
Low-rise walk-up apartments	RMB6,864

The average sale prices of Area 3 based on pre-sales and sales in FY2012 are as follows:

Type of commercial/residential properties	Average price (per square metre)
High-rise apartments	RMB4,457
Commercial units	RMB10,063
Car park units	No sales achieved

7. SEASONALITY

The business of the Target Group is not affected significantly by any seasonal changes in demand.

8. SALES AND MARKETING

The Target Group's sales and marketing team is located in Yichang. As of the Latest Practicable Date, the sales and marketing team comprises 5 employees, all of whom have received regular training. The team works closely with the external marketing agents to determine appropriate advertising and sales plans, to plan and organise on-site procedures, conduct market research, design sales, arrange promotional activities, collect customer data and comments and recommend pricing strategies.

9. COMPETITION

The Target Group's major competitors are large national or regional property developers who engage in the development of high-end residential and commercial developments in Yichang. The principal competitive factors influencing the property development sector generally and in Yichang where it operates include the pricing scheme adopted by the developers, the quality and workmanship of the projects, the location of the properties, the marketing strategies adopted by the developers and the timing of the launch of the property projects.

The property development companies active in property development in Yichang include Yichang Luxin Investment Co., Ltd (宜昌律信投资有限公司), Yichang Qingneng Estate Co., Ltd (宜昌清能置业有限责任公司), Yichang Meiziya Market Construction and Development Co., Ltd. (宜昌梅子垭市场建设开发有限公司) , Evergrande Real Estate Group Limited, Yichang Tianshi Real Estate Co., Ltd (宜昌天实置业有限责任公司) and Yichang Zhishang Real Estate Co., Ltd (宜昌市至上置业有限公司). Apart from these competitors, other competitors may also commence property developments in Yichang.

10. ENVIRONMENTAL CONSIDERATIONS

The Target Group is subject to various environmental regulations and certain undertakings that it has provided to the PRC Government under the terms of the various licences that it holds. On 24 June 2009, the Target Group received approval from the Yichang City Environmental Protection Bureau （宜昌市环保局）on its report in relation to the environmental effect and anti-pollution procedures of the Project（市环保局关于宜昌三峡国宾花园项目环境影响报告书的批复）to the effect that the Project is allowed to proceed in accordance with the procedures as stated in the report. The Target Group believes that its operations are compliant in all material aspects with applicable environmental regulations and it has obtained all necessary licences with respect to environmental regulations.

11. EMPLOYEES

As at the Latest Practicable Date, the Target Group has 101 staff. The remuneration packages of employees include monthly salaries, social welfare contributions and annual bonus. The employees of the Target Group possess varying degrees of skills and experiences in the industry of property development. With the Project moving into sales and further development stages, the Target Group will increase the number of employees moderately and will focus on the training of staff in all aspects of property development.

The following table sets forth the Target Group's employees by function as of the dates indicated:

	As of 31 December			As at the Latest Practicable Date
	2010	2011	2012	
General management and assistants	3	4	7	5
Sales and marketing	2	4	5	5
Finance and accounting	2	3	5	4
Budgeting and contract management	2	3	4	4
Planning	–	–	2	2
Engineeringv	4	4	5	5
Administration	4	9	15	15
Property Management	–	–	50	59
Total	17	27	93	101

The material increase in the number of employees in FY2012 is due to the incorporation of ZX Property Management and the hiring of property management employees to manage the high-rise apartments in Area 3 of the Project.

In accordance with PRC law, the Target Group has paid all necessary social insurance coverage for all employees of the Target Group.

As at the Latest Practicable Date, the Target Company has not experienced any strikes, labour disputes or regulatory action that has had a material effect on its business.

12. AWARDS

The Target Group has received multiple awards in the development of the Project.

Award	Date received	Awarded by:
Gold Unit Award (金牌户型)	October 2011	National Housing Industry Design Alliance (全国住宅产业设计联盟) and Yichang Institute of Architectural Design (宜昌市建筑设计研究院)
Excellent Habitat Property Award (优秀人居楼盘)	October 2011	Yichang Real Estate Marketing Development Summit Discussion Committee (宜昌房地产营销发展高峰论坛组委会)
Most Valuable Integrated Community Award (最具居住价值综合社区)	2011	www.fdc.com.cn (亿房网)
Outstanding Unit Award (国宾一号项目E2-C户型优秀户型)	January 2012	Yichang City Yiling District Real Estate Administration Bureau (宜昌市夷陵区房管局)and Yichang City Yiling District Real Estate Association （宜昌市夷陵区房地产协会）
Yichang City Outstanding Living Environment Award （宜昌优秀人居环境地产品牌）	January 2012	China Branding and Mass Communication Organising Committee （中国品牌与传播大会组委会）
Top Ten Influential Projects Award （十大影响力名优楼盘）	January 2012	Yichang Real Estate Development Association （宜昌市房地产开发协会）
Yichang City Most Valuable Property (宜昌最具价值楼盘）	January 2012	China Branding and Mass Communication Organising Committee （中国品牌与传播大会组委会）
Yichang Top 20 Real Estate Companies (宜昌资信20强房地产企业)	January 2012	Yichang Real Estate Development Association (宜昌市房地产开发协会）and Yichang Top 20 Real Estate Companies Judging Panel (宜昌资信20强房地产企业评委会)
Advanced Enterprise (先进单位)	January 2012	Yichang City Yiling District Real Estate Administration Bureau (宜昌市夷陵区房管局)and Yichang City Yiling District Real Estate Association (宜昌市夷陵区房地产协会)
Gold Unit Award (金牌户型奖)	August 2012	Hubei Real Estate Mainstream Media Alliance (湖北房地产主流媒体联盟) and Yichang Institute of Architectural Design (宜昌市建筑设计研究院)
Excellent Habitat Property Award (优秀人居楼盘)	August 2012	Yichang Real Estate Marketing Development Summit Discussion Committee (宜昌房地产营销发展高峰论坛组委会）and China Real Estate Marketing Association (中国房地产营销学会)
2012 Hubei Famous Project (2012年度湖北名盘)	November 2012	Hubei Real Estate Annual Meeting (湖北房地产年会), Chu Tian Metropolis Newspaper(楚天都市报)and Tencent (腾讯)

Award	Date received	Awarded by:
Top Ten Influential Projects Award (十大影响力名优楼盘)	January 2013	Yichang Real Estate Development Association (宜昌市房地产开发协会)
Top 20 Real Estate Companies (资信20强房地产企业)	January 2013	Yichang Property Annual Ranking Committee (宜昌楼市年度风云榜组委会)
Outstanding Member (优秀会员单位)		Yichang City Yiling District Real Estate Administration Bureau (宜昌市夷陵区房管局)and Yichang City Yiling District Real Estate Association (宜昌市夷陵区房地产协会)

13. RESEARCH AND DEVELOPMENT

The nature of the Target Group's business does not require it to carry out extensive research and development and the Target Group has not carried out any significant research and development for the past three financial years.

However, the Target Group does review its internal processes and constantly keeps abreast of new concepts and trends relevant to the property development industry in order to ensure that the Target Group remains up to date with market developments.

14. MAJOR SUPPLIERS AND MAJOR CUSTOMERS

14.1 Suppliers

In 2010, The Target Company entered into a construction framework agreement with Guangsha to engage it as the general engineering, procurement and construction contractor for the Project. Guangsha is a wholly-owned subsidiary of Guangsha Holdings Ltd (www.guangsha.com), one of the largest non-state owned enterprises in the PRC. The principal business of Guangsha Holdings Ltd includes civil construction, real estate development and energy.

The construction framework agreement was subject to the entry into definitive contracts on specific components of the Project. As at the Latest Practicable Date three major definitive engineering, procurement and construction contracts for Area 1, Area 3 and Yichang Convention Centre respectively have been entered into between the Target Company and Guangsha. Guangsha is the Target Group's single largest supplier.

The Target Group's construction work is typically contracted out to independent construction companies selected through a tender process for each phase of the development of the Project. The Target Company has a number of other direct contractors and given the amount of purchases, none of which are considered significant.

Heilongjiang Construction Engineering Group Co., Ltd. is the principal architectural graphic designer of the Project, in charge of the general plan and comprehensive facilities plan, vertical design plan and site formation plans.

The Architectural Design and Research Institute of Shenzhen University is responsible for the planning and construction designs of Area 3 and Area 1, Yichang Convention Centre and Yichang Hotel.

The Target Group has engaged Yichang Jingwei Construction and Installation Engineering Co., Ltd for earth excavation services, slope design and the construction of retaining walls.

Yichang Three Gorges Power Transmission Engineering Co., Ltd. Yiling Branch is the principal supplier for electric engineering and power supply for the Project.

The major suppliers which accounted for 5% or more of the Target Group's total purchases for FY2010, FY2011 and FY2012 are as follows:

Name of Suppliers	% of Total Purchases		
	FY2010	**FY2011**	**FY2012**
Guangsha	0%	76%	31%
Heilongjiang Construction Engineering Group Co., Ltd. （黑龙江建工集团有限责任公司建筑设计院）	10%	0%	0%
Architectural Design and Research Institute of Shenzhen University （深圳大学建筑设计研究院）	7%	1%	3%
Yichang Jingwei Construction and Installation Engineering Co., Ltd （宜昌经纬建筑安装工程有限责任公司）	32%	5%	0%
Yichang Three Gorges Power Transmission Engineering Co., Ltd. Yiling Branch (宜昌三峡送变电工程有限责任公司夷陵分公司)	0%	0%	7%

None of the Directors or the controlling shareholders of the Company, or any of their associates, have any interest, direct or indirect, in the major suppliers of the Target Group.

To the best of the Directors' knowledge and belief, after making reasonable enquiries, none of the substantial shareholders of the Company and/or their associates, have any interest, direct or indirect, in the major suppliers of the Target Group.

There are no arrangements or understandings with any of the Target Group's major suppliers pursuant to which any of the Company's directors or executive officers was selected as a director or executive officer of the Company.

14.2 Customers

The customers of the Target Group are individual buyers of houses and apartments, and associated commercial spaces. None of the Target Group's customers accounted for 5% or more of the Target Group's revenue in FY2010, FY2011 and FY2012.

As at the Latest Practicable Date, the Target Group's business or profitability is not materially dependent on any single customer.

15. MATERIAL CONTRACTS OF THE TARGET GROUP

The Target Group has entered into the following contracts, not being contracts entered into in the ordinary course of business, during the period of two years preceding the Latest Practicable Date, which are or may be material:

15.1 Loan Agreement

On 8 June 2011, the Target Company entered into a Fixed Asset Loan Agreement with the China Construction Bank Xiling Branch ("**CCB**") for a loan of RMB150 million. The salient terms of the contract are as follows:

(i) Repayment of an amount equivalent to 20% of the principal amount outstanding is to be made to CCB when the total number of units sold in Phase I represent 40% of the aggregate units of Phase I;

(ii) Repayment of an amount equivalent to 70% of the principal amount outstanding is to be made to CCB when the total number of units sold in Phase I represent 70% of the aggregate units of Phase I;

(iii) The proceeds of the loan are only to be used for the construction of Phase I of the Project;

(iv) As security for the loan, a mortgage of the Project Land has been created, and all constructions on the land have been secured, in favour of CCB;

(v) No dividend shall be allowed to be declared and/or paid out by the Target Company until all amounts owing have fully been repaid; and

(vi) Written consent from CCB is required for specified events which includes merger, separation, share transfer, investment and any substantial increase in debt financing of the Target Company.

The Target Company's finance manager Mr Song is responsible for the Target Company's compliance with the terms of the loan agreement, with overall supervision and overview by the General Manager, Mr Chai Bo.

As at the Latest Practicable Date, approximately RMB97 million is being utilised for the development of the Project.

Pursuant to item (vi) above, the Company will seek the bank's written consent prior to Completion.

15.2 Termination Agreements

In the development of the Project, The Target Company engaged Guangsha as the main contractor for the Project in 2010 by entering into the Guangsha Contracts. Under the Guangsha Contracts, Guangsha was in charge of the development of the entire Project, subject to the entering into of definitive construction contracts for each phase or area of the Project. Guangsha has entered into such definitive construction contracts for Area 1, Area 3 and the Yichang Convention Centre. For further description of Guangsha, please refer to Section 14 of this Appendix A entitled "Major Suppliers and Major Customers".

The Target Company had also entered into the Dafang Contract with Dafang, a wholly-owned subsidiary of Guangsha, on 16 August 2010 to jointly develop the Project. The salient terms of the contract were as follows:

(i) The Target Company will contribute the land use right of the Project Land, while Dafang will procure all necessary funding for development and construction of the Project;

(ii) Dafang will nominate one deputy general manager to the Target Company;

(iii) The interests payable for loan facilities utilised for the construction of Commercial Properties will be borne fully by Dafang;

(iv) The interests payable for loan facilities utilised for the construction of the Yichang Convention Centre and Yichang Hotel will be borne by the Target Company and Dafang in the ratio of 65 : 35;

(v) The profits after tax of Commercial Properties will be shared by the Target Company and Dafang in the ratio of 60 : 40, profit for each phase of Commercial Property will be calculated and settled after the sale status of that phase reaches 95%; and

(vi) The property right to the Yichang Convention Centre and Yichang Hotel will be shared by the Target Company and Dafang in the ratio of 65 : 35.

Dafang is a company incorporated in the PRC with limited liability (registration number 420000000018482). It is principally engaged in middle market to high-end property developments mainly in Hubei Province, PRC. Dafang has a Class 3 Property Development Qualification Permit and has successfully developed or jointly developed several well-known projects in Hubei Province, PRC. Dafang is a wholly-owned subsidiary of Guangsha. Pursuant to the Dafang Contracts, Dafang injected a total of RMB50 million into the Project.

By way of a letter dated 16 August 2010, Guangsha and Dafang jointly confirmed to the Target Company that, in the event any one of the Dafang Contracts and/or the Guangsha Contracts are terminated and/or ceases to continue to be effective on a particular date for any reasons whatsoever, then all of the Dafang Contracts and Guangsha Contracts shall on the same date, be deemed terminated and/or cease to have effect on the same date.

On 26 November 2012, the Target Company entered into the Termination Agreements with Dafang and Guangsha to terminate the Dafang Contracts and the Guangsha Contracts. Pursuant to the Termination Agreements, the parties mutually agreed to terminate the Dafang Contracts and Guangsha Contracts due to certain disagreements as to the terms of the cooperation. The employment of the deputy general manager that was appointed to the Target Company following the Dafang Contracts was also terminated as a result of the Termination Agreements.

Pursuant to the Termination Agreements, Dafang and Guangsha are obliged to complete hand-over of the construction works and all relevant documents and information of Yichang Convention Centre, and within 5 days of such hand-over, the Target Company shall refund RMB40 million of Dafang's investment. Further, within one month upon the completion of construction of Area 1 by Dafang and Guangsha, the Target Company shall refund the remaining RMB10 million of Dafang's investment. As at the Latest Practicable Date, the Target Company has refunded the full RMB50 million to Dafang in accordance with the terms as described above.

Pursuant to the Termination Agreements, the profits attributable to the portions of the Project completed on or before the date of the Termination Agreements shall be shared in accordance with the terms of the Dafang Contract.

As at the Latest Practicable Date, the Target Company and Guangsha are in the process of resolving the amounts payable to Guangsha and have submitted their work estimates to a quantity surveyor for finalisation. In any event, the Target Company has confirmed that the maximum payable settlement sum of RMB83 million has already been provided for in the Target Company's financial statement for FY2012. This amount is included under Other payables to non-related parties of RMB86.98 million as at 31 December 2012, which is under Other payables and accruals as part of the Current Liabilities. Please refer to Note 15 on Page C-22 of Appendix C. Accordingly, management of the Target Group is of the opinion that this outstanding issue has no material impact on the Proposed Acquisition.

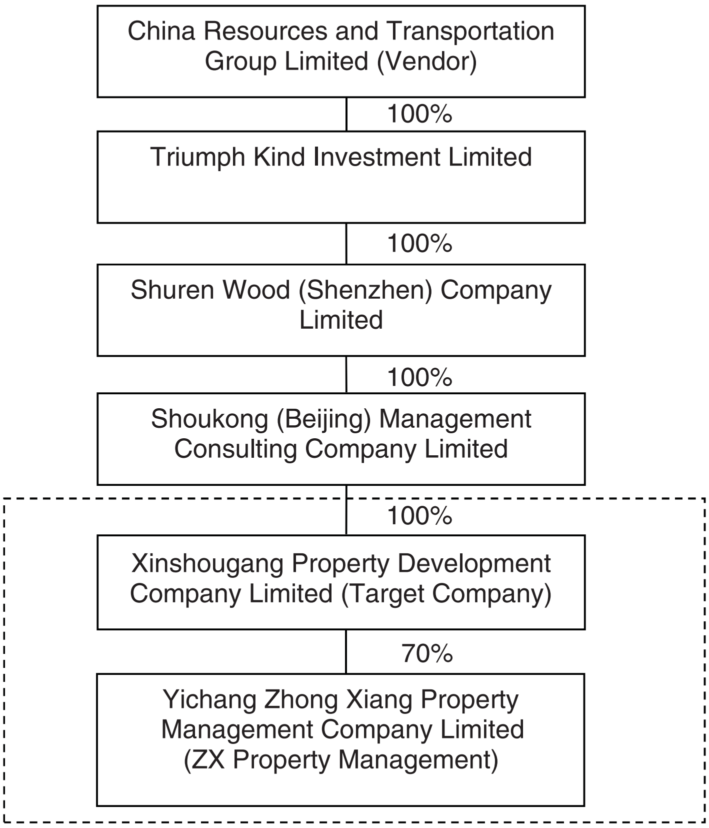
Construction of the Yichang Convention Centre has resumed following the appointment of Chongqing Huasheng Construction and Engineering Group Company Limited (重庆市华升建筑工程集团有限公司) as the new contractor.

16. THE VENDOR

The Target Company is a wholly owned indirect subsidiary of the Vendor. The Vendor is a company incorporated in the Cayman Islands with limited liability and has been listed on HKSE (stock code: 269) on 19 March 1993. The Vendor's registered office is at Caledonian Trust (Cayman) Limited, Caledonian House, 69 Dr. Roy's Drive, P.O. Box 1043, Grand Cayman, KY1-1102, Cayman Islands, and the Vendor's principal place of business is at Room 1801-07, 18/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The Vendor is principally engaged in expressway and auxiliary facility investment, expressway operation, management and maintenance, property development and asset management, forest operation and management, timber logging and trading, sale of timber products, plantation and trading of seedlings, and cold storage warehouse rental. Please refer to the Vendor's website at **http://www.crtg.com.hk** for more information on the Vendor.

As at the Latest Practicable Date, the Target Group is owned by the Vendor via the following structure:



17. MATERIAL LITIGATION

As at the Latest Practicable Date, save as disclosed below, after making reasonable enquiries, none of the Directors are aware of any legal or arbitration proceedings to which the Target Group is a party or which is pending or contemplated, the outcome of which in the opinion of the Directors may have a material and adverse effect on the financial position of the Enlarged Group taken as a whole.

On 4 September 2012, the Target Company received an order from the Intermediate People's Court of Wuhan City in the PRC to attend a trial as a third party. The suit involves a monetary dispute of construction payment in the amount of RMB6.3 million with loss of interest payments owing between Guangsha and a sub-contractor as defendants and two other sub-contractors as plaintiffs.

The plaintiffs are claiming against the defendants for: (i) termination of the sub-contract with Guangsha and (ii) payment of compensation, damages and costs from the defendants.

The Company has been advised by the PRC Counsel that:

(a) the Target Company is not a defendant to the suit;

(b) the plaintiffs have not made any claim against the Target Company;

(c) accordingly, the Target Company is not liable to pay any damages or costs to any party under the suit; and

(d) notwithstanding the above, the Target Company should participate in the proceedings to be aware of any development.

Accordingly, no provision has been made by the Target Company for any claims arising from this matter.

As at the Latest Practicable Date, the defendants' argument that the court has no jurisdiction over the case has been rejected, and the defendants are currently in the midst of filing an appeal against the decision.

18. ADMINISTRATIVE COMPLIANCE

PRC Counsel has confirmed that as at the Latest Practicable Date, the Target Company has complied with all laws and regulations, and there are no pending administrative penalties.

Separately, the Vendor has confirmed to the Company that as at the Latest Practicable Date, the Target Company has complied with all laws and regulations, and there are no pending administrative penalties.

19. SELECTED FINANCIAL INFORMATION

The selected financial information presented below should be read in conjunction with the Target Group's consolidated financial statements and the notes thereto set out in Appendix C of this Circular. A summary of the results of operations of the Target Group in respect of FY2010, FY2011 and FY2012 is set out below:

Consolidated Statement of Comprehensive Income

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Revenue	–	–	171,429
Cost of sales	–	–	(116,680)
Gross profit	–	–	54,749
Other income	95	123	158
Expenses			
Selling and distribution	(33)	(11,019)	(6,940)
Administrative	(1,269)	(993)	(1,747)
(Loss)/profit before income tax	(1,207)	(11,889)	46,220
Income tax expense	–	–	(8,442)
Total comprehensive (loss)/income, representing net (loss)/profit	(1,207)	(11,889)	37,778

Consolidated Statement of Financial Position

	2010 RMB'000	2011 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	21,199	30,728	46,621
	21,199	30,728	46,621
Current assets			
Cash and cash equivalents	9,679	36,878	51,578
Trade receivables	–	–	11,051
Prepayments, deposits and other receivables	225	9,416	4,925
Properties for development	266,791	408,634	427,019
	276,695	454,928	494,573
Current liabilities			
Trade payables	2,127	27,999	1,404
Other payables and accruals	91,307	99,458	135,868
Receipts in advance	–	83,479	54,781
Due to intermediate holding corporation	186,267	186,267	186,267
Current income tax liabilities	–	–	6,468
	279,701	397,203	384,788
NET CURRENT (LIABILITIES)/ASSETS	(3,006)	57,725	109,785
TOTAL ASSETS LESS CURRENT LIABILITIES	18,193	88,453	156,406
Non-current liabilities			
Borrowings	–	82,149	112,174
	–	82,149	112,174
NET ASSETS	**18,193**	**6,304**	**44,232**
EQUITY			
Equity attributable to owners of the Company			
Share capital	20,000	20,000	20,000
Reserves	–	–	2,408
(Accumulated losses)/retained profits	(1,807)	(13,696)	21,674
	18,193	6,304	44,082
Non-controlling interests	–	–	150
TOTAL EQUITY	**18,193**	**6,304**	**44,232**

20. LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditure and Divestments

The majority of Target Group's capital expenditure comprises purchases of property, plant and equipment. The details of such expenditure for FY2010, FY2011 and FY2012 are set out below:

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Property, plant and equipment	21,220	9,665	16,442

There were no material divestments for the last three financial years ended 31 December 2010, 2011 and 2012.

Liquidity and Capital Resources

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Net cash provided by/(used in) operating activities	30,792	(45,259)	894
Net cash used in investing activities	(21,125)	(9,542)	(16,344)
Net cash provided by financing activities	–	81,212	29,456
Net increase in cash and cash equivalents	9,667	26,411	14,006
Cash and cash equivalents at beginning of the financial year	12	9,679	36,090
Cash and cash equivalents at end of the financial year	9,679	36,090	50,096

21. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

21.1 Significant Factors Affecting the Results of Operations

The Target Company's performance is generally not subject to seasonality. The major factors affecting its financial performance are, inter alia, as follows:

(i) volume of properties the Target Company sells and the setting prices at which the Target Company sets: The volume of properties that the Target Company can sell depends on the progress on the construction of the properties and the market response when the Target Company launches the properties. Consistent with the practice in the property development industry in the PRC, the Target Company needs to satisfy certain conditions for properties pre-sale set out in the relevant PRC laws and regulations. The setting prices of the Target Company's properties are generally determined by the market forces of supply and demand, and are also subject to state guidance or state approvals. The Target Company prices its properties with reference to the market rates for similar types of properties at comparable locations. The average price of its properties will therefore depend on the location mix of properties sold and delivered during each fiscal period. In addition, the Target Company generally develops and sells its properties in phases. The volume of properties provided for sale or pre-sale depends on the planning, designing and construction of each of the phases. At any time, properties for one or more phases may be available for sale and pre-sale;

(ii) completion of construction and delivery schedules of the property developments: the length of time required to complete the construction of a property development may take up to several years. While the pre-sale of a property may generate positive cash flows for the Target Company in the period the sales proceeds are received, revenue recognition is based on completion method. Please refer to the summary of significant accounting policies under Appendix C of this Circular for details. Hence, this may cause significant fluctuations in revenues from one year to another due to varying levels of completion of construction and delivery of the development properties. Furthermore, the Target Company faces exposure to price volatility of construction materials. An increase in the cost of the construction materials such as steel and cement may have a negative impact on the profitability if the Target Company cannot pass on the increased costs to its customers as the cost of construction materials is a significant component of the cost of sales;

(iii) general property market environment in the PRC: conditions in the property markets in which the Target Company operates change from time to time and are affected significantly by the general economic, social, political, government policy and regulatory developments in the PRC and in particular the specific regions that the Target Company operate in; and

(iv) ability to compete with its competitors: revenue will be affected if the Target Company fails to compete successfully with other property developers in terms of pricing, design, quality, location and timely project delivery. Please refer to the sections entitled "Risk Factors" in Section 5 of this Circular and "Prospects and Trends" in Section 22 of Appendix A of this Circular for details of the above factors and other factors which may affect the Target Company's business operations, revenue and overall financial performance.

21.2 Review of Results of Operation

Revenue

During the periods under review, no revenue were recorded in FY2010 and FY2011 respectively since the Project was still under development stage. Revenue in FY2012 was mainly derived from sales of high-rise apartments in Area 3 of Phase I of the Project. The following table sets forth the summary of saleable GFA, average selling price ("**ASP**") and revenue by areas of the Project derived in FY2012:-

	GFA	**Units**	**ASP**	**Revenue**
	(m^2)		**(RMB/m^2)**	**(RMB'000)**
High-rise apartments in Area 3 of Phase I	38,463	347	4,457	171,429

Cost of sales

Cost of sales comprises costs incurred directly for property development activities (which comprised land costs, construction costs and capitalised borrowing costs). There were no cost of sales since no revenue was recorded in FY2010 and FY2011. The following table sets forth information relating to the breakdown of the main components of the cost of sales for FY2012:-

	RMB'000	**% of Revenue**
Land costs	4,535	2.6
Construction costs	93,312	54.4
Capitalised borrowing costs	6,328	3.7
Land appreciation tax	12,505	7.3
Total cost of sales	**116,680**	**68.1**
Average development cost	3,208	

Land costs
Land costs include costs of acquisition of the rights to occupy, use and develop land, and primarily represent land premiums incurred in connection with the land use rights for the Project Land acquired through a public auction.

Construction costs
Construction costs comprise costs for the design and construction of a project, including payments to independent contractors, costs of raw materials such as steel, cement, labour costs, foundation and substructure, fittings, facilities for utilities and related infrastructure such as roads, pipelines and landscaping.

Capitalised borrowing costs
Capitalised borrowing costs represent interest costs arising from short-term and long-term borrowings to finance specific property developments.

Tax and levies
Tax and levies include the land appreciation tax.

Gross profit and gross profit margin

The Target Group's gross profit and gross profit margin for FY2012 are approximately RMB54.7 million and 31.9%, respectively.

Other income

Other income comprises mainly interest income from bank deposits.

Selling and distribution expenses

Selling and distribution expenses mainly comprise advertising and selling expenses, sales commissions and salary and welfare of sales staff.

Administrative expenses

Administrative expenses mainly comprise various expenses such as salaries and staff-related expenses of general administrative staff, utilities, depreciation charges for buildings and office equipment, telecommunication expenses, entertainment expenses, audit and professional fees, administrative transportation expenses and other general office overheads expenses.

Income tax expense

The Target Group is subject to enterprise income tax in the PRC, which currently is at the rate of 25%.

21.3 Review of Results of Operations

(a) FY2010 vs FY2011

Revenue

No revenue was recorded in both FY2010 and FY2011.

Cost of sales and gross profit

No cost of sales and gross profit was recorded as a result.

Other income

The other income increased by approximately RMB28,000 from approximately RMB95,000 in FY2010 to approximately RMB123,000 in FY2011. The increase was mainly due to increased interest income received mainly as a result of higher average bank balances in FY2011 as compared to FY2010.

Selling and distribution expenses

Selling and distribution expenses increased by RMB11.0 million or 33233% from approximately RMB33,000 in FY2010 to RMB11.0 million in FY2011. The increase in selling and distribution expenses was due mainly to increase in the advertisement expenses of RMB8.6 million incurred in relation to the launch of pre-sale of Phase I in FY2011.

Administrative expenses

Administrative expenses decreased by RMB0.3 million or 23.1% from RMB1.3 million in FY2010 to RMB1.0 million in FY2011. The decrease was due mainly to the decrease in office administrative expenses of approximately RMB0.2 million, the decrease in operating expenses of approximately RMB0.1 million and the decrease of travel expenses of approximately RMB0.1 million as the corporate activities involving restructuring and fund raising were lower in FY2011.

Income tax expense

Income tax expense was nil for both FY2010 and FY2011 because the Target Company recorded losses as the Target Company had not recorded any revenue.

Net loss attributable to Shareholders

As a result of the foregoing, net loss for the year increased by RMB10.7 million, or 891.7%, from RMB1.2 million in FY2010 to RMB11.9 million in FY2011.

(b) FY2011 vs FY2012

Revenue

Revenue increased from nil in FY2011 to 171.4 million in FY2012 as a result of the sales of properties being recognised for the first time for the Target Company.

Cost of sales and gross profit

Cost of sales increased from nil in FY2011 to RMB116.7 million in FY2012 and gross profit was recorded as RMB54.7 million in FY2012.

Other income

Other income increased by approximately RMB35,000 from approximately RMB123,000 in FY2011 to approximately RMB158,000 in FY2012. The increase was mainly due to increase in other income of RMB60,000 which mainly consists of forfeited deposit from potential buyers of property units, however interest income from banks decreased to RMB98,000 mainly as a result of lower average bank balances in FY2012 as compared to FY2011.

Selling and distribution expenses

Selling and distribution expenses decreased by RMB4.1 million or 37.3% from RMB11.0 million in FY2011 to RMB6.9 million in FY2012. The decrease in selling and distribution expenses was mainly due to the decrease in the advertisement costs of RMB3.6 million. The decrease was due to less marketing campaign activities in FY2012 as compared to FY2011 when the pre-sales commenced.

Administrative expenses

Administrative expenses increased by RMB0.7 million or 70.0% from RMB1.0 million in FY2011 to RMB1.7 million in FY2012. The increase was mainly due to the increases in the depreciation charges of RMB0.3 million, legal fees of RMB0.2 million and salaries and wages of RMB0.3 million, which is in line with the general increase in activities of the Target Company.

Income tax expense

Income tax expense was RMB8.4 million in FY2012 compared to nil in FY2011 as a result of operating profit in FY2012.

Net profit attributable to Shareholders

As a result of the foregoing, the Target Company recorded a net profit of RMB37.8 million in FY2012, compared to a net loss of RMB11.9 million in FY2011.

21.4 Review of Past Financial Position

Non-current assets

Non-current assets comprised mainly properties, plant and equipment. As at end of FY2012, the non-current assets had an aggregate net book value of approximately RMB46.6 million, and accounted for approximately 8.6% of total assets.

Current assets

Current assets comprised mainly properties for development, cash and cash equivalents, trade receivables and prepayment, deposits and other receivables. The current assets as at the end of FY2012 amounted to approximately RMB494.6 million, or approximately 91.4% of total assets.

The largest component of current assets was properties for development, which amounted to approximately RMB427.0 million as at end of FY2012. Properties for development include properties held for sales of RMB79.5 million and properties under development of RMB347.5 million as at the end of FY2012.

Cash and cash equivalents stood at RMB51.6 million at the end of FY2012.

Trade receivables stood at approximately RMB11.1 million as at end of FY2012. Trade receivables relates to the outstanding balance due from financial institutions in relation to the release of customers' borrowing of mortgage loans.

Current liabilities

Current liabilities comprised mainly trade payables, other payables and accruals, receipts in advance and amount due to an intermediate holding corporation.

At end of FY2012, other payables and accruals mainly comprised the other payables to non-related parties of RMB87.0 million and the accrued operating expenses of RMB48.9 million. The other payables to non-related parties mainly comprised the amount payable to Dafang of RMB50 million. The amount payable to Dafang relates to advances made to the Target Company. The accrued operating expenses mainly comprised of the taxes related to the land use right of RMB25 million.

Receipts in advance amounted to RMB54.8 million at the end of FY2012.

Amount due to an intermediate holding corporation of RMB186.3 million at the end of FY2012 relates to a shareholder's loan. The shareholder's loan is unsecured, interest-free and with no fixed term of repayment.

Current tax payables stood at approximately RMB6.5 million at the end of FY2012.

Non-current liabilities

Non-current liabilities comprised solely of bank borrowings which amounted to approximately RMB112.2 million as at the end of FY2012.

Shareholders' equity

As at the end of FY2012, the shareholders' equity comprised the share capital of RMB20 million, reserves of RMB2.4 million and the retained profits of RMB21.7 million.

21.5 Liquidity and Capital Resources

The Target Company's operations are funded by a combination of internal and external sources of funds. Internal sources of funds comprise mainly cash generated from the operating activities and cash and bank balances while external sources comprise mainly bank borrowings and shareholder loans. Separately, the Vendor has, after having made all due and careful enquiry, confirmed to the Company, that the working capital available to the Target Group as at the date of this Circular is sufficient for its present requirements and for at least the next 12 months.

The following table sets forth the net cash flows for the periods under review:-

RMB'000	FY2010	FY2011	FY2012
Net cash provided by/(used in) operating activities	30,792	(45,259)	894
Net cash used in investing activities	(21,125)	(9,542)	(16,344)
Net cash provided by financing activities	–	81,212	29,456
Net increase in cash and cash equivalents	9,667	26,411	14,006
Cash and cash equivalents at beginning of financial year	12	9,679	36,090
Cash and cash equivalents at end of the financial year	9,679	36,090	50,096

Cash flow from operating activities

FY2010

In FY2010, the Target Company recorded a net cash inflow from operating activities of RMB30.8 million. The net working capital outflows were mainly attributed to an increase in the properties for development of RMB136.6 million, which was mainly offset by an increase in other payables and accruals of RMB91.3 million and increase in amount due to an intermediate holding corporation of RMB75.3 million.

FY2011

In FY2011, the Target Company recorded a net cash outflow from operating activities of RMB45.3 million. The net working capital outflows were mainly attributed to an increase in the properties for development of RMB141.7 million and a net loss of RMB11.9 million. This was partly offset by an increase in trade payables of RMB25.9 million and receipts in advance of RMB83.5 million.

FY2012

In FY2012, the Target Company recorded a net cash inflow from operating activities before income tax paid of RMB2.9 million. The net working capital outflows were mainly attributed to the decreases in receipts in advance of RMB28.7 million and trade payables of RMB26.6 million and an increase in the properties for development of RMB18.4 million, which was mainly offset by the net profit of RMB37.8 million and an increase in other payables and accurals of RMB36.4 million.

Cash flow from investing activities

FY2010

In FY2010, the Target Company recorded a net cash outflow from investing activities of RMB21.1 million, which was mainly due to the consideration paid for purchasing property, plant and equipment of RMB21.2 million.

FY2011

In FY2011, the Target Company recorded a net cash outflow in investing activities of RMB9.5 million, which was mainly due to the consideration paid for purchasing property, plant and equipment of RMB9.7 million. This was slightly reduced by interest income of RMB0.1 million.

FY2012

In FY2012, the Target Company recorded a net cash outflow in investing activities of RMB16.3 million, which was mainly due to the consideration paid for purchasing property, plant and equipment of RMB16.4 million. This was slightly reduced by interest income of RMB0.1 million.

Cash flow from financing activities

FY2010

In FY2010, the Target Company had no financing activities.

FY2011

In FY2011, the Target Company recorded a net cash inflow in financing activities of RMB81.2 million. This was mainly due to the proceeds from the new loan of RMB82.0 million. These inflows were slightly offset by the addition of pledged deposit of RMB0.8 million.

FY2012

In FY2012, Target Company recorded a net cash inflow from financing activities of RMB29.5 million. This was mainly due to proceeds from a new loan of RMB30.0 million. This inflow was slightly offset by the addition of pledged deposit of RMB0.7 million.

21.6 Material Capital Expenditures

The material capital expenditures made by the Target Company for the periods under review and for the period from 1 January 2013 up to the Latest Practicable Date were as follows:-

	FY2010	FY2011	FY2012	From 1 January 2013 to the Latest Practicable Date
	RMB'000	RMB'000	RMB'000	RMB'000
Additions				
Property, plant and equipment	21,220	9,665	16,442	1,880

There was no material disposal for the periods under review and for the period from 1 January 2013 up to the Latest Practicable Date.

21.7 Material Commitments and Contingencies

Guarantees provided by the Target Group

The table below sets forth the aggregate principal amount of guarantees provided by the Target Group as of the dates indicated:-

	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers	–	27,664	69,763

The Target Group was in cooperation with the local housing provident fund administrative centre (住房公积金中心) and certain financial institutions arranged mortgage loan facility for its purchasers of property and provided guarantees to secure obligations of such purchasers for repayments. In line with consumer banking practices in the PRC, these institutions require the Target Group to provide interim guarantees in respect of these loans.

The Target Group's guarantee starts from the dates the mortgagees grant the mortgage loans to the purchasers. Such guarantees will be discharged upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within three months after the purchasers take possession of the relevant property; and (ii) the satisfaction of relevant mortgage loan by purchasers.

From the delivery of the property to the purchaser till the grant of the real estate ownership certificate to the purchaser, the legal title of the property belongs to the Target Company. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Target Group is responsible to repay the outstanding mortgage principals together with any accrued interest and penalty owed by the defaulted purchasers to the banks, and the Target Group is entitled to take over the legal title and possession of the related properties. No provision has been made for the guarantees as the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty in case of any default in payments. As at 31 December 2012, the outstanding guarantees amounted to RMB69,763,000 (2011: RMB27,664,000 and 2010: Nil).

Capital commitments

The table below sets forth the amount of capital commitments of the Target Group as of the dates indicated:-

	As at 31 December 2010	**As at 31 December 2011**	**As at 31 December 2012**
	RMB'000	**RMB'000**	**RMB'000**
Contracted but not provided for investment on properties under development for sale	364,292	215,479	185,523

Pursuant to the Land Use Right Transfer Agreement dated 29 December 2006 made between the Yichang Yiling District Land Resources Bureau and the Target Company, it was agreed that the total investment for the development would be approximately RMB650,000,000. Up to 31 December 2012, the total investment in the property development was RMB464,477,000 (2011: RMB434,521,000 and 2010: RMB285,708,000).

21.8 Changes in Accounting Policies

There have been no changes in the Target Group's accounting policies for the last three financial years ended 31 December 2012.

22. PROSPECTS AND TRENDS

The following discussion about the Target Group's prospects includes forward-looking statements regarding events the fulfilment of which involves risks and uncertainties. The Target Group's actual results could differ materially from those that may be projected in these forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements". The Target Group's results of operations for the financial year ending 31 December 2013 are expected to be influenced by the following factors:

(i) The continued healthy development of the real estate industry in the PRC and Yichang City;

(ii) The continued positive growth and development of Yichang City;

(iii) The Target Group's success in continuing cost management efforts to improve operating margins and maintain adequate operating cash flows;;

(iv) the ability of third-party contractors to deliver their works in a timely manner;

(v) the growth in demand for the Target Group's residential and commercial property units;

(vi) a stable regulatory environment;

(vii) competition in the Target Group's markets; and

(viii) general market conditions.

The Target Group's results of operations for FY2013 will principally depend on the delivery schedule in 2013 for the residential and commercial units sold and the development schedule of Area 2 of Phase I. As at the Latest Practicable Date, the Vendor has confirmed to the Company that it is not aware of any information that will have a material adverse bearing on the Target Group's prospects for FY2013.

23. ORDER BOOK

As the Target Group's properties are not built to order, the Target Group does not have order books.

24. DIVIDEND POLICY

Pursuant to the Fixed Asset Loan Agreement with the China Construction Bank, Xiling Branch entered into on 8 June 2011 for a loan of RMB150 million, the Target Company is not allowed to declare or pay out any dividends until all amounts owing under the Fixed Asset Loan Agreement have been fully repaid.

As at the Latest Practicable Date, the Target Company has not declared nor paid any dividends since its incorporation.

As at the Latest Practicable Date, the Target Group does not have a fixed dividend policy. The declaration and payment of future dividends will be determined at the sole discretion of the Board subject to Shareholders' approval, and will depend upon the Enlarged Group's operating results, financial position, other cash requirements including working capital, capital expenditures, the terms of borrowing arrangements (if any), expansion plans and other factors deemed relevant by the Board.

In making their recommendation, the Board will consider, among other things, the Enlarged Group's future earnings, operations, capital requirements, cash flow and financial condition, as well as general business conditions and other factors which the Board may consider appropriate.

25. RELATED PARTY TRANSACTIONS

Please see Note 21 of the "Independent Auditor's Report of the Consolidated Financial Statements of Yichang Xinshougang Property Development Company Limited and its Subsidiary for the Financial Years ended 31 December 2010, 2011 and 2012" set out in page C-25 of Appendix C to this Circular for information on the Target Group's related party transactions in FY2010, FY2011 and FY2012.

26. INTERESTED PARTY TRANSACTIONS

Transactions between the Target Group and any interested persons (namely, the Company's Directors or any of the Company's controlling Shareholders or the associates of such persons) are generally known as interested person transactions. None of the Company's Directors or controlling Shareholders and associates of any such Director or controlling Shareholder was or is interested, directly or indirectly, in any material transaction undertaken by the Target Group during the last 3 financial years ended 31 December 2010,2011 and 2012, and for the period from 1 January 2013 up to the Latest Practicable Date.

27. CAPITALISATION AND INDEBTEDNESS

The Target Group's capitalisation and indebtedness based on its financial position as at 31 December 2012 were as follows:

	As at 31 December 2012
	RMB'000
Cash and cash equivalents	51,578
Indebtedness	
Shareholder's loans	186,267
Long-term bank borrowings	112,174
Total indebtedness	298,441
Total equity	44,232
Total capitalisation(1)	156,406(1)

Note:

(1) Total capitalisation is the sum of total equity and long-term bank borrowings.

Target Group's gearings which is defined as total borrowings divided by total assets are as follows:

2010: 0% (no debt)
2011: 17%
2012: 21%

The Target Group intends to develop the land in phases. For each phase, the development can be financed from the Target Group's operating cash flow, borrowings from banks or other financial institutions and shareholder loans. As the Project Land is divided into phases for development, each phase can be mortgaged separately to the banks and financial institutions for funding and development financing.

28. REGULATORY OVERVIEW

Please see Appendix B to this Circular for an overview of the relevant PRC regulations.

29. INSURANCE

In accordance with PRC law, the Target Group has paid all necessary social insurance coverage for all employees of the Target Group. The Target Group also maintains work injury insurance for its construction workers during construction of the Project, and motor vehicle insurance for the vehicles registered in the name of the Target Group.

All the policies are in force and the premiums have been paid. These insurance policies are reviewed annually to ensure that the coverage is adequate.

30. DESCRIPTION OF THE EQUITY OF THE TARGET GROUP

The Target Company is a company incorporated in the PRC in 2006 with limited liability and principally engaged in property development, property management, asset management and investment consultation. The Target Company is an indirect wholly owned subsidiary of the Vendor and owns the Project Land for the development of the Project.

The following is a summary of the changes in the issued share capital of the Target Company for the 3 years preceding the Latest Practicable Date:

Date of Increase in equity	Purpose of increase in equity	Amount of equity increased (RMB)	Resultant equity (RMB)
2 April 2013	Increase in equity to meet requirements of the China Construction Bank Xiling Branch in relation to loans for the construction of the Yichang Convention Centre and Area 2 of Phase 1 of the Project	100,000,000	120,000,000

The total equity of the Target Company as at the Latest Practicable Date is RMB120,000,000. Save as disclosed above, there has been no movement in the equity of the Target Company for the 3 years preceding the Latest Practicable Date.

ZX Property Management was incorporated on 21 November 2012 with a registered capital of RMB500,000. There has been no change in equity in ZX Property Management from incorporation up to the Latest Practicable Date.

1. PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("**NPC**") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulation and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全国人民代表大会常务委员会关于加强法律解释工作的决议) passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

1.1 Judicial system

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution (中华人民共和国宪法) and the Law of the Organisation of the People's Courts of the People's Republic of China (中华人民共和国人民法院组织法), the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal, administrative and economic divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

The people's courts adopt a two-tier final appeal system. A party may, before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (中华人民共和国民事诉讼法) (the "Civil Procedure Law") adopted on 9 April 1991. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

1.2 Arbitration and enforcement of arbitral awards

The Arbitration Law of the PRC (中华人民共和国仲裁法) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade dispute involving foreign parties where the parties have entered into a written agreement to refer to the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("New York Convention") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

1.3 Company Law

The Company Law of PRC ("**Company Law**"), which came into effect on 1 January 2006 and was revised on 25 December 1999, 28 August 2004 and 27 October 2005 respectively, governs two types of companies, namely companies incorporated in the PRC with limited liability and companies incorporated in the PRC as joint stock limited companies. Both types of companies have the status of an enterprise legal person. The liability of shareholders of a limited liability company is limited to the extent of the amount of capital subscribed by them and the company is liable to its creditors to the full amount of the assets owned by it. The liability of shareholders of joint stock limited companies is limited to the extent of the amount of shares subscribed by them and the company is liable to its creditors to the full amount of the assets owned by it.

The Company law applies to foreign enterprises, including wholly foreign-owned enterprise ("**WFOE**"), sino-foreign equity joint venture ("**JV**") and sino-foreign cooperative joint venture ("**CJV**") unless expressly otherwise provided by the Law of the PRC on Sino-Foreign Equity Joint Venture (中华人民共和国中外合资经营企业法), the Law of the PRC on Sino-Foreign Cooperative Joint Venture (中华人民共和国中外合作经营企业法) and the Law of the PRC on Wholly Foreign-owned Enterprises (中华人民共和国外资企业法) (hereinafter collectively "**Foreign Enterprises Law**").

(i) Procedures for establishment of a WFOE, JV and CJV

The establishment of a WFOE, JV and CJV will have to be approved by the Ministry of Commerce ("MOC") (or its delegated authorities). In the case of a WFOE whereby two or more foreign investors jointly apply for the establishment of a WFOE or in the case of an application for the establishment of JV or CJV, a copy of the contract between the parties must also be submitted to MOC (or its delegated authorities) for its approval and record. A WFOE, JV or CJV must also obtain a business licence from the State Administration for Industry and Commerce ("SAIC") (or its delegated authorities) before it can commence business.

(ii) Nature of WFOE, JV and CJV

A WFOE or JV is a limited liability company under the Foreign Enterprises Law as well as a legal person, whereas a CJV may elect to be a legal person. A legal person may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by MOC (or its delegated authorities) in accordance with relevant regulations.

(iii) Profit distribution

The Foreign Enterprises Law provides that after payment of taxes, a WFOE, JV, or CJV must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10% of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

The net profit that an investor receives after fulfilling its obligations under the laws and the agreement and the contract, the funds it receives at the time of the enterprise's scheduled expiration or its early termination, and such other funds may be remitted abroad in accordance with the PRC foreign exchange regulations and in the currency specified in the contract.

2. THE LAND SYSTEM OF THE PRC

All land in the PRC is either state-owned or collectively owned, depending on the location of the land. All land in the urban areas of a city or town is state-owned, and all land in the rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively owned. The state has the right to reclaim land in accordance with law if required for the benefit of the public. Although all land in the PRC is owned by the state or by collectives, private individuals and businesses and other organizations are permitted to hold, lease and develop land for which they are granted land use rights.

2.1 National legislation

In April 1988, the constitution of the PRC (中华人民共和国宪法), the "Constitution") was amended by the National People's Congress to allow for the transfer of land use rights for value. In December, 1988, the Land Administration Law of the PRC (中华人民共和国土地管理法) (the "**Land Administration Law**") was amended to permit the transfer of land use rights for value.

Lands in the PRC are also categorised by usage. A system of land usage control is implemented under PRC law. According to the Land Administration Law, effective from 28 August 2004, the State formulates overall planning of land utilisation, whereby lands are categorised as land for agriculture purposes, land for construction purposes (including but not limited to industrial, commercial, tourism, entertainment, commodity housing development) and unexploited land. Land users shall use lands in accordance with approved usage.

Under the "Interim Regulations of the People's Republic of China on Assignment and Transfer of the Right to Use State-owned Urban Land" (中华人民共和国城镇国有土地使用权出让和转让暂行条例) ("**Interim Regulations on Assignment and Transfer**") promulgated in May 1990, local governments at or above county level have the power to grant land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the grant of land use rights against payment of a grant premium.

Under the "Interim Regulations on Assignment and Transfer", there are different maximum periods of grant for different uses of land. They are generally as follows:

Use of land	**Maximum period in years**
Commercial, tourism, entertainment	40
Residential	70
Industrial	50
Public utilities	50
Others	50

Under the "Interim Regulations on Assignment and Transfer", all local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The state may not reclaim lawfully granted land use rights prior to expiration of the term of grant. If public interest requires repossession by the state under special circumstances during the term of grant, compensation will be paid by the state. A land grantee may lawfully transfer, mortgage or lease its land use rights to a third party for the remainder of the term of grant.

Upon expiration of the term of grant, renewal is possible subject to the execution of a new contract for the grant of land use rights and payment of a premium. If the term of the grant is not renewed, the land use rights and ownership of any buildings erected on the land will revert to the state without compensation.

2.2 Grant

PRC law distinguishes between the ownership of land and the right to use land. Land use rights can be granted by the state to companies to entitle companies to the exclusive use of a piece of land for a specified purpose within a specified term and on such other terms and conditions as may be prescribed. A premium is payable on the grant of land use rights. The maximum term that can be granted for the right to use a piece land depends on the purpose for which the land is used. As described above, the maximum limits specified in the relevant regulations vary from 40 to 70 years depending on the purpose for which the land is used.

Under the "Interim Regulations on Assignment and Transfer", there are four methods in which land use rights may be granted, namely by agreement, tender, auction or listing-for-sale.

Grant by Public Auction, Tender or Bidding (招标拍卖挂牌出让)

According to the Regulations on the Grant of State-owned Land Use Rights through Competitive Bidding, Public Auction and Public Tender (招标拍卖挂牌出让国有建设用地使用权规定), which was passed by the Ministry of Land and Resources of the PRC on 3 April 2002 and revised on 21 September 2007 and effective from 1 November 2007, grant of lands for operational use (including industrial, commercial, tourism, entertainment and commodity housing development) or a plot of land with two or more prospective purchasers shall be subject to competitive bidding, public auction or public tender. The qualified buyer that offers the highest price is the winner and will sign the land use right grant contract with the competent land authority.

Upon signing of the land use right grant contract for the grant of land use right, the grantee is required to pay the land grant premium in accordance with the terms of the land use right grant contract. Once the land grant premium is paid in full, the grantee may apply for issuance of a State-owned Land Use Right Certificate from the land authority evidencing the grant of land use right.

Grant by Bilateral Agreement (协议出让)

Pursuant to the Regulation on the Grant of Land Use Right Through Bilateral Agreement (协议出让国有土地使用权规定) promulgated by the Ministry of Land Resources, which became effective on 1 August 2003, land use right may be granted by way of a bilateral agreement between the relevant land authority and a grantee only if it is not required by laws, regulations or rules to be granted by means of competitive bidding, public auction or public tender. It is further provided that, if there is only one prospective land user on the plot of land which has been publicly announced to be granted, the land authority may grant the land use rights through a bilateral agreement with the exception of lands for operational use (including but not limited to commercial, tourism, entertainment and commodity housing development). Upon full payment of the land premium, the grantee may apply for registration with the local authority and obtain a State-owned Land Use Certificate evidencing the grant of land use right.

Upon signing the land grant contract the grantee is required to pay the land premium pursuant to the terms of the contract and the contract is then submitted to the relevant local bureau for the issue of the land use rights certificate. Upon expiration of the term of grant, the grantee may apply for its renewal. Upon approval by the relevant local land bureau, a new contract is entered into to renew the grant, and a grant premium shall be paid.

Land Use Grant Contract

In order to control and facilitate the procedure for obtaining land use rights, several local governments have stipulated standard provisions in land grant contracts. Such provisions generally include terms such as use of land, land premium and manner of payment, building restrictions including site coverage, total GFA and height limitations, constructions of public facilities, submission of building plans and approvals, deadlines for completion of construction, town planning requirements, restrictions against alienation before payment of premiums and completion of prescribed development and liabilities for breach of contract. Any change requested by the land user in the specified use of land after the execution of a land grant contract will be subject to approvals from the relevant land bureau and the relevant urban planning department, and a new land use contract may have to be signed and the land premium may have to be adjusted to reflect the appreciation of the new use. Registration procedures must then be carried out immediately.

2.3 Transfer

After land use rights relating to a particular area of land have been granted by the state, unless any restriction is imposed, the party to whom such land use rights have been granted may transfer, lease or mortgage such land use rights for a term not exceeding the term which has been granted by the state. The difference between a transfer and a lease is that a transfer involves the vesting of the land use rights by the transferor in the transferee during the term for which such land use rights are vested in the transferor. A lease, on the other hand, does not involve a transfer of such rights by the lessor to the lessee. Furthermore, a lease, unlike a transfer, does not usually involve the payment of a premium. Instead, a rent is payable during the term of the lease. Land use rights cannot be transferred, leased or mortgaged if the provisions of the land grant contract, with respect to the prescribed period and conditions of investment, development and use of the land, have not been complied with. In addition, different areas of the PRC have different conditions which must have been fulfilled before the respective land use rights can be transferred, leased or mortgaged.

All transfers, mortgages and leases of land use rights must be evidenced by a written contract registered with the relevant local land bureau at municipality or county level. Upon a transfer of land use rights, all rights and obligations contained in the contract pursuant to which the land use rights were originally granted by the state are deemed to be incorporated as part of the terms and conditions of such transfer, depending on the nature of the transaction.

Under Article 37 of the "Law of the People's Republic of China on Administration of Urban Real Estate" (中华人民共和国城市房地产管理法) (**"Urban Real Estate Law")**, real property that has not been registered and a title certificate for which has not been obtained in accordance with the law cannot be transferred. Under Article 38 of the Urban Real Estate Law, if land use rights are acquired by means of grant, the following conditions must have been met before the land use rights may be transferred: (1) the premium for the grant of land use rights must have been paid in full in accordance with the land grant contract and a land use rights certificate must have been obtained; (ii) investment or development must have been made or carried out in accordance with terms of the land grant contract; (iii) more than 25% of the total amount of investment or development must have been made or completed; and (iv) where the investment or development involves a large tract of land, conditions for use of the land for industrial or other construction purpose have been confirmed.

2.4 Termination

A land use right terminates upon the expiry of the term of grant specified in the land grant contract and the resumption by the state of that right.

The state generally will not withdraw a land use right before the expiration of its term of grant and if it does so for special reasons, such as in the public interest, it must offer proper compensation to the land user, having regard to the surrounding circumstances and the period for which the land use right has been enjoyed by the user.

According to the Property Law, upon expiry of land use term, (i) the term of residential land use shall be automatically renewed; and (ii) the term of non-residential land use shall be handled in accordance with the laws and the ownership of buildings and other properties on such land shall be determined according to the contractual agreement between the relevant authority and the existing land use right owner; if there is no contractual agreement or if it is not expressly agreed upon, the laws and administrative laws shall be applied.

According to the Urban Real Estate Law, upon expiry of the term of grant under the land use right grant contract, the user of non-residential land may apply for renewal of land use term by submitting an application at least 12 months in advance. Such application will be granted unless for public interest the land needs to be taken back by the State. If the application is granted, the land user is required to enter into a new land use right grant contract, pay a land use right grant premium and effect the necessary registration of the renewed right. If no application is made, or such application is not granted, the land use right shall revert to the State and the buildings and fixtures on the land shall be handled in accordance with the agreements set forth in the land use right grant contract**.**

Document of Title

In the PRC, there are two registers for real estate. Land registration is achieved by the issue of a land use rights certificate by the relevant authorities to the land user. It is evidence that the land user has obtained land use rights which can be transferred, mortgaged or leased. The building registration is the issue of a real estate certificate to the owner. It is evidence that the owner has obtained building ownership rights in respect of the buildings erected on that piece of land. According to the Land Registration Regulations (中华人民共和国土地管理法) (the "Registration Regulations") promulgated by the State Land Administration Bureau on 18 December 1995 and implemented on 1 February 1996, and the Administrative Rules on Registration of Urban Real Estate Property (城市房屋权属登记管理办法) promulgated by the Ministry of Housing and Urban-Rural Development on 27 October 1997 and implemented on 1 January 1998, all duly registered land use rights and building ownership rights are protected by the law. According to the Measures on Land Registration (土地登记办法) promulgated by Ministry of Land and Resources of the PRC on 30 December 2007, effective from 1 February 2008, land registration refers to the registration of land use right of state-owned land, land use right of collectively-owned land, mortgage right and easement and any other land rights onto a land register which is publicly disclosed. According to the Measures on Building Registration (房屋登记办法) promulgated by the Ministry of Housing and Urban-Rural Development of the PRC on 15 February 2008, effective from 1 July 2008, building registration refers to registration of rights to the building and any other requisite matters by building registration authorities onto a building register.

3. ESTABLISHMENT OF A REAL ESTATE DEVELOPMENT ENTERPRISE

According to the Urban Real Estate Law promulgated by the Standing Committee of the National People's Congress in July 1994, a real estate developer is defined as an enterprise which engages in the development and sale of real estate for the purpose of making profits. Under the "Regulations on Administration of Development of Urban Real Estate" (城市房地产开发经营管理条列) (the "Development Regulations") promulgated by the State Council on 20 July 1998, in addition to requirements on establishing enterprises, an enterprise which is to engage in development of real estate shall satisfy the following requirements: 1) its registered capital shall be RMB1 million or more and 2) have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom shall hold the relevant qualification certificate. The local government of a province, autonomous region or municipality directly under the central government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a real estate developer.

To establish a real estate development enterprise, the developer should apply for registration with the administration for industry and commerce on or above the county level. The real estate developer must also report its establishment to the real estate development authority in the location of the registration authority, within 30 days of the receipt of its Business License.

Under the “Foreign Investment Industrial Guidance Catalogue” (外商投资产业指导目录) promulgated jointly by the Ministry of Commerce (the “MOFCOM”) and the National Development and Reform Commission (the “NDRC”) in November 2004, the development and construction of ordinary residential units falls within the category of industries in which foreign investment is encouraged, whereas the development of a whole land lot and the construction and operation of high end hotels, villas, premium office buildings and international conference centres falls within the category of industries in which foreign investment is subject to restrictions, while other real estate development falls within the category of industry in which foreign investment is permitted. A foreign investor intending to engage in the development and sale of real estate may establish a joint venture or cooperative venture in accordance with the “Law of the People’s Republic of China on Sino-Foreign Joint Ventures” (中外合资经营企业法) or the “Law of the People’s Republic of China on Sino-Foreign Cooperative Ventures” (中外合作经营企业法) respectively. Prior to its registration, the parties to the joint venture or cooperative venture shall sign a joint venture/cooperative venture agreement, contract and articles of association, which must be approved by the foreign economic and trade authorities, upon which an Approval Certificate for a Foreign-Invested Enterprise will be issued and recorded with the Ministry of Commerce.

4. QUALIFICATIONS OF A REAL ESTATE DEVELOPER

Under the Development Regulations, the real estate development authorities shall examine applications for registration of qualifications of a real estate developer when it reports its establishment, by considering its assets, professional personnel and business results. A real estate developer shall only undertake real estate development projects in compliance with the approved qualification registration.

In accordance with the “Provisions on Administration of Qualifications of Real Estate Developers” (房地产开发企业资质管理规定) (“**Provisions on Administration of Qualifications**”) promulgated by the Ministry of Housing and Urban-Rural Development on 29 March 2000, a real estate developer shall apply for registration of its qualifications according to such Provisions. An enterprise may not engage in development and sale of real estate without a qualification classification certificate for real estate development. The construction authority under the State Council oversees the qualifications of real estate developers throughout the country, and the real estate development authority under a local government on or above the county level shall oversee the qualifications of local real estate developers.

In accordance with the Provisions on Administration of Qualifications, real estate developers are classified into four classes. The approval system is tiered, so that confirmation of class 1 qualifications shall be subject to preliminary examination by the construction authority under the people’s government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower qualifications shall be formulated by the construction authority under the people’s government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification permit of the relevant class by the qualification examination authority.

After a newly established real estate developer reports its establishment to the real estate development authority, the latter shall issue a Provisional Qualification Permit (暂定资质证书) to the eligible developer within 30 days of its receipt of the above report. The valid period of the Provisional Qualification Permit is 1 year the real estate development authority can extend the period according to the developer’s specific operating circumstances. But the whole extension shall not exceed 2 years. The real estate developer shall apply for qualification classification by the real estate development authority within one month before the expiry of the Provisional Qualification Permit.

A developer of any qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business which is limited to another classification. The following table sets out the details of classification:

Classification of Qualification Permit	Permitted scale of construction	Specific scope of business
Class 1	No restriction	No restriction
Class 2	Up to a gross area 250,000 square metres	As confirmed by People's government of the relevant province
Class 3	Up to a gross area 100,000 square metres	As confirmed by the people's government of the relevant autonomous region or municipality
Class 4	Up to a gross area 40,000 square metres	As confirmed by the people's government of the relevant city county

5. DEVELOPMENT OF A REAL ESTATE PROJECT

Under the "Foreign Investment Industrial Guidance Catalogue" (外商投资产业指导目录) promulgated jointly by the MOFCOM and the NDRC in November 2004, the development and construction of ordinary residential units fall within the category of industries in which foreign investment is encouraged, whereas the development of a whole land lot and the construction and operation of high-end hotels, villas, premium office buildings, international conference centers and large theme parks fall within the category of industries in which foreign investment is subject to restrictions, while other real estate development falls within the category of industry in which foreign investment is permitted. According to the Interim Provisions on Approving Foreign Investment Project promulgated by NDRC in October 2004, NDRC shall examine and approve the foreign investment projects with total investment of USD 100 million or more within the category of industries in which foreign investment is encouraged or permitted and those with total investment of USD 50 million or more within the category of industries in which foreign investment is subject to restrictions as classified in the Foreign Investment Industrial Guidance Catalogue, while the local development and reform authorities shall examine and approve the foreign investment projects with total investment less than USD 100 million within the category of industries in which foreign investment is encouraged or permitted and those with total investment less than USD50 million within the category of industries in which foreign investment is subject to restrictions as classified in the Foreign Investment Industrial Guidance Catalogue.

The Development Regulations provide that a real estate development project may be carried out having regard to the overall land use plan, annual construction land schedule, applicable municipal zoning plan and the annual property development scheme. Those projects which should be approved by the planning control authorities in accordance with the relevant rules should also be reported and approved by the planning control authorities and be brought into the annual planning of the investment in fixed assets. Under the "State Council's Notice on Stringent Control Over High Class Real Estate Development Projects" (国务院关于严格控制高档房地产开发项目的通知) issued by the State Council in May 1995, for a high class real estate project with a gross area of more than 100,000 square metres or total investment of more than RMB200 million or foreign investment of US$30 million or more, the project proposal and commencement of works shall be subject to approval of the State Development Planning Commission. For a high class real estate project with a gross area of more than 20,000 square metres but less than 100,000 square metres or total investment of more than RMB30 million but less than RMB200 million, the project proposal and commencement of works shall be subject to approval of the Development Planning Commission of the relevant province, autonomous region, municipality directly under the central government or separate-planning city, and then a report to the State Development Planning Commission. A high class real estate project with foreign investment of more than US$100 million is subject to approval of the State Council based on the recommendation of the State Development Planning Commission.

Under the "Interim Regulations on Assignment and Transfer", a system of assignment and transfer of the right to use State-owned land is adopted. A land user shall pay an assignment price to the State as consideration for the assignment of the right to use a land site within a certain term, and the land user may transfer, lease out, mortgage or otherwise commercially exploit the land use right within the term of use. Under the Interim Regulations on Assignment and Transfer and the Urban Real Estate Law, the land administration authority under the local government of the relevant city or county shall enter into an assignment contract with the land user to provide for the assignment of land use right. The land user shall pay the assignment price as provided by the assignment contract. After payment in full of the assignment price, the land user shall register with the land administration authority and obtain a Land Use Right Certificate which evidences the acquisition of land use rights.

The "Urban Real Estate Law and the Development Regulations" provide that, except for land use rights which may be obtained through allocation pursuant to PRC laws or the stipulations of the State Council, land use rights for a site intended for real estate development shall be obtained through assignment. Please refer to Section 6 of this Appendix B entitled "Land for Property Development" for further details.

When carrying out the feasibility study for a construction project, a construction entity shall make a preliminary application for construction on the relevant site to the land administration authority of the same level as the project approval authority, in accordance with the "Measures for Administration of Examination and Approval for Construction Sites" (建设用地审查报批管理办法) and the "Measures for Administration of Preliminary Examination of Construction Project Sites" (建设项目用地预审管理办法) promulgated by the Ministry of Land and Resources in March 1999 and in July 2001 (amended in October 2004) respectively. After receiving the preliminary application, the land administration authority shall carry out preliminary approval of various matters relating to the construction project in compliance with the overall zoning plans and land supply policy of the State, and shall then issue a preliminary approval report in respect of the project site. The preliminary approval report is the requisite document of the approval of the construction project. The land administration authority under the people's government of the relevant city or county shall sign a land use right assignment contract (土地使用权出让合同) with the land user and issue an Approval for Construction Site (建设用地批准书) to the construction entity. Please refer to Section 6 of this Appendix B entitled "Land for Property Development" for further information on the land use right assessment contract. The Development Regulations also provide that a real estate developer shall record any major events which occur in the course of construction in the "Real Estate Development Project Manual" (房地产开发项目手册) and periodically submit the same to the real estate development authority for its records.

Under the "Measures for Control and Administration of Assignment and Transfer of Right to Use Urban State-owned Land" (城市国有土地使用权出让转让规划管理办法) promulgated by the Ministry of Housing and Urban-Rural Development in December 1992, the assignee to an assignment contract, i.e. a real estate developer, shall legally apply for a Planning Permit for Land Use and Construction (建设用地规划许可证) from the municipal planning authority with the assignment contract, which permits use planning for the land to be developed by the real estate developer.

After obtaining a Planning Permit for Land Use and Construction, a real estate developer shall organise the necessary survey, planning and design work having regard to planning and design requirements. For the planning and design proposal in respect of a real estate development project, the relevant report and approval procedures required by the "Law of the People's Republic of China on Municipal Planning" (中华人民共和国城市规划法), promulgated by the Standing Committee of the National People's Congress in December 1989, and local statutes on municipal planning must be followed and a Planning Permit for Construction Projects (建设工程规划许可证) must be obtained from the municipal planning authority.

In accordance with the "Regulations for the Administration of Demolition and Removal of Urban Housing" (城市房屋拆迁管理条例), which were promulgated by the State Council on 13 June 2001, upon obtaining approvals for a construction project, construction plan and State-owned land use rights, a real estate development organization may apply to the municipal, or county people's government of the place where the real estate is located (i.e. the administration bureau of State-owned land resources and housing of the relevant city, district or county) for a permit for housing demolition and removal. Upon granting an approval and issuing a demolition and removal permit, the real estate administration department shall issue a demolition and removal notice to the inhabitants of the area to be demolished. The demolition and removal party shall implement the demolition and removal within the area and period specified in the housing demolition and removal permit. If the demolition and removal party fails to complete the demolition and removal works within the permitted period, it shall, within 15 days prior to the expiry of the permit, apply to the original approval department in charge of demolition and removal for an extension.

During the demolition and removal period announced by the department in charge of demolition and removal, the demolition and removal party and the parties subject to demolition and removal shall enter into an agreement for compensation and resettlement in respect of the demolition and removal. If the demolition and removal party, the parties subject to demolition and removal and the housing lessee cannot reach an agreement, any party concerned may apply to the original approval department in charge of demolition and removal for a ruling. Such ruling shall be rendered within 30 days of the application. If any party disagrees with the ruling, it may initiate proceedings in the People's Court within 3 months after the service of the ruling. Pursuant to the law, if the demolition and removal party has provided housing to the party subject to demolition and removal or the party subject to demolition and removal has provided housing to a lessee, the demolition and removal shall not be stopped during the period of legal proceedings.

Pursuant to "Regulations for the Administration of Demolition and Removal of Urban Housing", compensation for housing demolition and removal may be effected by way of monetary compensation or exchange of property rights. If the monetary compensation method is used, the amount of compensation shall be assessed on the basis of the real property market price determined by the location, uses and the gross area of the housing to be demolished. The demolition and removal party shall entrust a qualified real estate assessment agency with conducting an assessment on the housing to be demolished. If the property right exchange is used, the demolition and removal party and the party subject to demolition and removal shall, on the basis of the real property market price and the location, uses and the gross area of the housing to be demolished, calculate the amount of compensation which shall be made for the housing to be demolished, the real property market price of the housing to be exchanged for the housing to be demolished, and work out the difference between the two.

In addition to paying the demolition and removal compensation, the demolition and removal party shall pay removal allowance to the party subject to demolition and removal. During the interim period, when the party subject to demolition and removal arranges accommodation by himself, the demolition and removal party shall pay temporary allocation allowance. On the other hand, when the demolition and removal party provides accommodation to the party subject to demolition and removal during the interim period, the demolition and removal party need not to pay the temporary allocation allowance.

After a real estate developer has carried out the above work, the site is ready for the commencement of construction works, the progress of demolition and relocation of existing buildings complies with construction needs and funds for the construction have been made available, the developer shall apply for a Permit for Erection of Construction Projects (施工许可证) from the construction authority under the local people's government above the county level according to the "Measures for Administration of Granting Permission for Commencement of Construction Works" (建筑工程施工许可管理办法) promulgated by the Ministry of Housing and Urban-Rural Development in October 1999 (amended in July 2001).

Under the "Property Development and Municipal Facilities Construction Tender Management Regulations" (房屋建筑和市政基础设施工程施工招标投标管理办法) (the "**Tender Regulations**") promulgated in June 2001 which states that a Tender Appraisal Committee should be set up for the appraisal of the tender for construction works for the project. According to the Tender Regulations, the Tender Appraisal Committee shall include our representatives and relevant specialists selected from a list certified by the construction administration authorities. The number of members of the Tender Appraisal Committee shall be an odd number and shall consist of at least five members. The relevant specialists shall make up no less than two-thirds of the membership. In accordance with the Tender Regulations, if the estimated price of a single construction contract amounts to at least RMB2 million or the fatal investment of the project is at least RMB30 million, the developer is required to undertake a bidding process for the award of the construction contracts. The quality and timeliness of the construction are usually warranted in these contracts. Typically, these construction contracts provide for progress payments to be made by the real estate developer to the construction companies at agreed stages of completion of the constructions works.

Pursuant to the Development regulations and the "Interim Measures for the Administration of the Registration of the Inspection and Acceptance of the Completed Building Construction Works and the Municipal Infrastructure Facilities" (房屋建筑工程和市政基础设施工程竣工验收备案管理暂行办法) promulgated by Ministry of Housing and Urban-Rural Development in April 2000 and the "Interim Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure" (房屋建筑工程和市政基础设施工程竣工验收备案管理暂行办法), after the completion of the real estate development project, the real estate developer should apply for the project completion inspection and acceptance to the county level or higher local real estate administration authorities. A real estate development project may only be delivered to the buyer after passing the necessary acceptance examination, and may not be delivered before the necessary acceptance examination is conducted or without passing such an acceptance examination. For a housing estate or other building complex project, an acceptance examination shall be conducted upon completion of the whole project and where such a project is developed in phases, an acceptance examination may be carried out for each completed phase. The real estate developer should register the project completion inspection and acceptance within 15 days from the pass of the inspection and acceptance. The project should not be delivered for use without passing or failing to pass the project completion inspection and acceptance. Projects like residential house quarters should pass the compositive completion inspection and acceptance. Projects developed by stages can also be inspected and accepted by stages.

Pursuant to the Development Regulations and the "Circular of the State Council on Adjusting the Capital Ratios of Fixed Asset Investment Projects in Some Industries" (关于调整部分行业固定资产投资项目资本金比例的通知) promulgated by the State Council in April 2004, the capital ratio of the real estate development projects has been increased from 20% to 35%. The real estate development should be in accordance with the provisions of the land use assignment contract on the usage of the land and commencement date of the project. When a project is not commenced within 1 year since the date of commencement stipulated in the land use assignment contract, additional fees may be imposed on the developer with an amount of not more than 20% of the land assignment price. If the delay is more than 2 years, the land use right may be appropriated by the government without any refund.

6. LAND FOR PROPERTY DEVELOPMENT

According to the "Law of the Land Administration" (中华人民共和国土地管理法) updated in August 2004 by the Standing Committee of the National People's Congress, and the "Regulations for the Implementation of the Law of the Land Administration" (中华人民共和国土地管理法实施条例) promulgated by the State Council in December 1998, the state regulates and controls the usage of land, the land register and record system and the land certificate issuing system. Where approved construction projects which involve the use of state-owned construction land, the construction entity should first apply to county level or higher land administration authorities which have the authorisation for the construction land use approval and hand in the documents that are prescribed in law and regulations. After being examined by the land administration authorities, the application must be reported to and approved by the same level government. Where occupation of land for construction purposes involves the conversion of agricultural land into land for construction purposes, the examination and approval procedures in this regard shall be required.

The provisions of the "Law of the People's Republic of China on Administration of Urban Real Estate" provide that, except for land use rights which may be obtained through appropriation pursuant to PRC laws or the stipulations of the State Council, land for property development shall be obtained by assignment.

The "Law on the Administration of Real Estate" (房地产管理法) expressly provides: "Assignment of land use right may be by public auction or competitive bidding or by a mutual agreement between both parties. Land for commercial use, tourism, entertainment and construction of luxury flats shall be sold by public auction wherever feasible, and may be sold by mutual agreement if sale by public auction or competitive bidding is not feasible". It also regulated that the pre-sale proceeds could only be used for the construction of the relevant project. On 30 April 2001, the State Council promulgated a "Notice on Strengthening the Administration of State-owned Land" (关于加强国有土地资产管理的通知) ("**Notice**"), which stipulates that State-owned land use rights shall as far as possible be sold by public auction or competitive bidding. The Notice further stipulates as follows: "The supply of State-owned land shall be made known to the public unless State security or confidentiality requirements are involved. If, after a supply schedule of land for commercial development and other uses is announced, there are two or more prospective investors who intend to develop the same land parcel, the relevant land parcel shall be made available to the market by the government at the municipal or county levels through competitive bidding or public auction. The competitive bidding and public auction of State-owned land use rights shall be conducted openly."

On 9 May, 2002, the State Bureau of Land Resources of the People's Republic of China promulgated the "Regulations on the Grant of State-owned Land Use Rights through Competitive Bidding, Public Auction and Public Announcements" (招标拍卖挂牌出让国有土地使用权规定) ("**The New Regulations**").

The New Regulations stipulate the legal basis, principles, scope, procedures and legal liability arising from and in connection with assignment of State-owned land use rights by competitive bidding and public auction. Pursuant to the New Regulations, land for commercial use, tourism, entertainment and commodity housing development shall be assigned by competitive bidding, public auction or public trading and, in the event that a land parcel for uses other than commerce, tourism, entertainment and commodity housing development has two or more prospective purchasers after the promulgation of the relevant land supply schedule, the assignment of the land parcel shall be performed by competitive bidding, public auction or public trading or Listing-for-sale. Under the aforesaid regulations, the assignor shall prepare the public auction and competitive bidding documents and shall make an announcement 20 days prior to the day of public auction to announce the basic particulars of the land parcel and the time and venue of the public auction. The assignor shall conduct a qualification verification of the bidding applicants and auction applicants, accept an open public bidding to determine the winning tender; or hold an auction to ascertain a winning bidder. The assignor and the winning tender or winning bidder shall then enter into a confirmation, and the assignor and the winning tender or winning bidder shall then enter into a contract for State-Owned land use right assignment.

7. MANAGEMENT OF PROPERTY

The State Council promulgated the Property Management Rules (物业管理条例) ("**Property Management Rules**") on 8 June 2003 and revised it on 26 August 2007. The Property Management Rules stipulate that owners in a common property management region shall organise the Owners Meeting and elect and establish the Owners Committee. However, owners will jointly exercise the duties of the Owners Meeting and the Owners Committee if there is only one owner or if there are only a few owners who have unanimously agreed not to organise the Owners Meeting.

Pursuant to the Property Management Rules, the quorum for an Owners Meeting requires owners representing more than 50.0% of owners (one independent unit represents one owner) with their floor areas accounting for more than 50.0% of the GFA within the common property management region. The following matters shall only be passed by two-thirds of owners with their floor areas accounting for two-thirds of the GFA in respect of the property:

- collection and utilisation of the special maintenance fund;
- alteration and/or reconstruction of building and its facilities.

Under the "Measures on Administration of Qualifications of Property Service Enterprises" (物业服务企业资质管理办法) revised by the Ministry of Construction of the PRC on 26 November 2007, a property service enterprise shall apply for qualification with the competent authority according to the measures. A qualified property service enterprise will be issued with a qualification certificate evidencing the qualification classification by the relevant authority. No enterprise may conduct property service without such qualification.

Service charges comprise the property service cost and the property service enterprise's remuneration. The exact amount of service charges payable to a property service enterprise as remuneration may be agreed by the parties by reference to the two methods. According to the "Rules on Property Service Fees" (物业服务收费管理办法) jointly promulgated by the National Development and Reform Commission (the "**NDRC**") and the Ministry of Construction of the PRC on 13 November 2003, the extra amount of service charges payable to property service enterprise as remuneration may be by reference to a fixed management fee (包干制) or a percentage based management fee (酬金制).

According to the "Notice of Issuing First Batch of Foreign Invested Real Estate Development Projects Completing Recording with MOC" (关于下发第一批通过商务部备案的外商投资房地产项目名单的通知) issued by the State Administration of Foreign Exchange ("**SAFE**") on 10 July 2007, in respect of foreign invested real estate companies (including new set-up and capital increase) obtaining approval certificates from authorities of commerce and passing recording with MOC on and after 1 June 2007, all SAFE branches shall not handle foreign debt registration and foreign debt conversion matters with such companies, namely, such companies are prohibited from borrowing foreign debts, including shareholder loans and offshore commercial loans. However, such restriction does not apply to the remaining quorum of foreign debts which has not been used by such companies prior to 1 June 2007. All SAFE branches shall not handle foreign exchange registration (or change of registration) and capital conversion matters with foreign invested real estate companies obtaining approval certificate from local authorities of commerce on and after 1 June 2007 but failing to secure recording with MOC. Pursuant to Notice of MOC on Implementing Recording Work of Foreign Investment in Real Estate Sector (商务部关于做好外商投资房地产业备案工作的通知), effective from 1 July 2008, the recording review is assigned to the department of commerce at the provincial level. Under the Notice of MOC on Simplifying Recording of Foreign-invested Real Estate Companies (商务部关于简化外商投资房地产企业备案程序的通知) promulgated by the MOC on 22 December 2008, the recording process has been simplified.

According to the Notice of SAFE on "Improving Practice of Administration on Capital Conversion of Foreign-invested Companies" (国家外汇管理局关于完善外商投资企业外汇资本金支付结汇管理有关业务操作问题的通知) promulgated by SAFE on 29 August 2008, any foreign-invested companies other than those having been approved to engage in real property business shall not use its RMB funds converted from capital contribution in foreign exchange to purchase non-self-use real property in the PRC. Further, according to the Notice of SAFE on "Further Clarifying and Regulating Administration of Foreign Exchange under Capital Accounts" (关于进一步明确和规部分资本项目外汇业务管理有关问题的通知) promulgated by SAFE on 9 November 2011, any foreign invested companies other than those having been approved to engage in real property business shall not use its RMB funds converted from capital contribution in foreign exchange to pay costs and expenses in relation to purchase of non-self-use real property in the PRC.

In December 2010, the Administrative Office of MOC promulgated the Notice on "Strengthening Administration of the Approval and Recording of Foreign Investment into Real Estate Industry" (商务部办公厅关于加强外商投资房地产业审批备案管理的通知), whereby it is emphasised that speculative investments shall be restrained. Among other things, a foreign-invested real property company shall be prohibited from purchasing and selling real estate properties completed or under construction within the PRC for arbitrage purposes.

Under the "Catalogue for the Guidance of Foreign Investment Industries" (2011 version) (外商投资产业指导目录（２０１１年修订）) promulgated by MOC and the NDRC in December 2011, (i) the development of a whole land lot jointly with PRC partners and the construction and operation of high-end hotels, premium office buildings and international conference centres fall within the category of industries in which foreign investment is subject to restrictions; (ii) the construction and operation of golf courses and villas fall within the category of industries in which foreign investment is prohibited; and (iii) other real estate development falls within the category of industries in which foreign investment is permitted.

8. SALE OF COMMODITY BUILDINGS

Under the "Measures for Administration of Sale of Commodity Buildings" (商品房销售管理办法) promulgated by the Ministry of Housing and Urban-Rural Development on 14 March 2001, sale of commodity buildings can include both post-completion and pre-completion sales. Commodity buildings may be put to post-completion sale only when the preconditions for such sale have been satisfied. Before the post-completion sale of a commodity building, a real estate developer shall submit the Real Estate Development Project Manual and other documents evidencing the satisfaction of preconditions for post-completion sale to the real estate development authority for its record.

Any pre-completion sale of commodity buildings shall be conducted in accordance with the "Measures for Administration of Pre-completion Sale of Commodity Buildings" (城市商品房预售管理办法) ("Pre-completion Sale Measures") promulgated by the Ministry of Housing and Urban-Rural Development in July 2004, and the Development Regulations. The Pre-completion Sale Measures provides that pre-completion sale of commodity buildings is subject to certain procedures. According to the Development Regulations and the Pre-completion Sale Measures, a permit shall be obtained before a commodity building may be put to pre-completion sale. A developer intending to sell a commodity building before its completion shall make the necessary pre-completion sale registration with the real estate development authority of the relevant city or county to obtain a Permit for Pre-completion Sale of Commodity Buildings (商品房预售许可证). A commodity building may only be sold before completion provided that: 1) the assignment price has been paid in full for the assignment of the land use rights involved and a land use rights certificate has been obtained; 2) a Planning Permit for Construction Projects and a Permit for Erection of Construction Projects have been obtained; 3) the funds invested in the development of the commodity buildings put to pre-completion sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been ascertained. Pre-completion sale of commodity buildings can only be carried out after the Permit for Pre-completion Sale of Commodity Buildings has been obtained.

Under the "Pre-completion Sale Measures" and "Urban Real Estate Law", the pre-sale proceeds of commodity buildings may only be used to fund the property development costs of the relevant projects.

9. TRANSFER OF REAL ESTATE

According to the "Urban Real Estate Law" and the "Provisions on Administration of Transfer of Urban Real Estate" (城市房地产转让管理规定) promulgated by the Ministry of Housing and Urban-Rural Development in August 2001, a real estate owner may sell, bequeath or otherwise legally transfer real estate to another person or legal entity. When transferring a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred. The parties to a transfer shall enter into a real estate transfer contract in writing and register the transfer with the real estate administration authority having jurisdiction over the location of the real estate within 90 days of the execution of the transfer contract.

Where the land use rights were originally obtained by assignment, the real property may only be transferred on the condition that: 1) the assignment price has been paid in full for the assignment of the land use rights as provided by the assignment contract and a land use right certificate has been obtained; 2) development has been carried out according to the assignment contract; and in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed, or in the case of a whole land lot development project, construction works have been carried out as planned, water supply, sewerage, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been leveled and made ready for industrial or other construction purposes.

If the land use rights were originally obtained by assignment, the term of the land use rights after transfer of the real estate shall be the remaining portion of the original term provided by the land use right assignment contract after deducting the time that has been used by the former land users. In the event that the transferee intends to change the usage of the land provided in the original assignment contract, consent shall first be obtained from the original assignor and the planning administration authority under the local government of the relevant city or county and an agreement to amend the land use right assignment contract or a new land use right assignment contract shall be signed in order to, inter alia, adjust the land use right assignment price accordingly.

If the land use rights were originally obtained by allocation, transfer of the real property shall be subject to the approval of the government vested with the necessary approval power as required by the State Council. After the People's Government vested with the necessary approval power approves such a transfer, the transferee shall complete the formalities for transfer of the land use rights, unless the relevant statutes require no transfer formalities, and pay the transfer price according to the relevant statutes.

10. WARRANTY AND MAINTENANCE OF BUILDINGS

Under the "Construction Law of the People's Republic of China" (中华人民共和国建筑法) promulgated by the Standing Committee of the National People's Congress on 1 November 1997, "Measures on Administration of Sale of Commodity Buildings" (商品房销售管理办法) promulgated by the Ministry of Housing and Urban-Rural Development in April 2001, "Rules on the Implementation of the System on Residence Quality Guarantee and Residence Usage Specification" (商品住宅实行住宅质量保证书和住宅使用说明书制度的规定) promulgated by the Ministry of Housing and Urban-Rural Development on 20 May 1998, "Regulations on Quality Management of Construction Projects" (建设工程质量管理条例) promulgated by the State Council on 30 January 2000, when a real property developer delivers newly-built residential houses, it should provide the Residence Usage Specification and Residence Quality Guarantee. The Residence Quality Guarantee is the legal document stipulating the warranty and maintenance obligations a real property developer should bear for the already sold residential houses and it can be a supplementary agreement to the Commodity House Purchase Contract.

According to Measures on the Warranty and Maintenance of Building Construction Projects (房屋建筑工程质量保修办法) promulgated by the Ministry of Housing and Urban-Rural Development on 30 June 2000 and other laws and regulations, under the natural usage, the warranty and maintenance period to different parts of the construction projects should not be shorter than the following:

(i) the reasonable using period as stipulated by the project designing documents for the groundwork foundation and main body structure project;

(ii) 5 years for the waterproof project of the surface, the toilet and rooms having waterproof requirements, the leakage preventing of the outside metope;

(iii) 2 heating periods/cooling periods for the heating and cooling system;

(iv) 2 years for the electrical system, water supply pipe and drainpipe, equipment fixing;

(v) 2 years for the fitment project.

The warranty and maintenance period of other parts may be determined by parties at their discretion.

11. LEASES OF BUILDINGS

Under the Urban Real Estate Law and the "Measures for Administration of Leases of Buildings in Urban Areas" (城市房屋租赁管理办法) promulgated by the Ministry of Housing and Urban-Rural Development in April 1995, the parties to a lease of a building shall enter into a lease contract in writing. A system has been adopted to register the leases of buildings. When a lease contract is signed, amended or terminated, the parties shall register the details with the real estate administration authority under the local government of the city or county in which the building is situated.

12. MORTGAGES OF REAL ESTATE

Under the Urban Real Estate Law and the "Measures for Administration of Mortgages of Urban Real Estate" (城市房地产抵押管理办法) promulgated by the Ministry of Housing and Urban-Rural Development on 9 May 1997 and amended in August 2001, when a mortgage is created on the ownership of a building legally obtained, a mortgage shall be simultaneously created on the land use right of the land on which the building is situated. The mortgager and the mortgagee shall sign a mortgage contract in writing. A system has been adopted to register the mortgages of real estate. After a real estate mortgage contract has been signed, the parties to the mortgage shall register the mortgage with the real estate administration authority at the location where the real estate is situated. A real estate mortgage contract shall become effective on the date of registration of the mortgage. If a mortgage is created on the real estate in respect of which a ("**Building Ownership Certificate**") (房屋所有权证) has been obtained legally, the registration authority shall make an entry under the "third party rights" item on the original Building Ownership Certificate and then issue a Certificate of Third Party Rights (房屋他项权证) to a Building to the mortgagee. If a mortgage is created on a commodity building put to pre-completion sale or on works in progress, the registration authority shall record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved shall re-register the mortgage of the real property after issuance of the certificates evidencing the rights and ownership to the real estate.

12.1 Restrictions on the grant of residential development loans and individual property purchase loans by banks

According to the "Notice of the PBOC on Regulating Home Financing Business" (中国人民银行关于规范住房金融业务的通知) promulgated by the PBOC in June 2001, all banks must comply with the following requirements before granting residential development loans, individual home mortgage loans and individual commercial flat loans:

(i) Housing development loans from banks shall only be granted to real estate development enterprises with adequate development assets and higher credit ratings. Such loans shall be offered to residential projects with good market potential. While the borrowing enterprise must have an amount of capital no less than 30% of the total investment required of the project, the project itself must have been issued with a "Land Use Permit for State-Owned Land" (国有土地使用证), "Planning Permit for Land Use and Construction" (建设用地规划许可证) , "Planning Permit for Construction Projects" (建设工程规划许可证) and "Permit for Erection of Construction Projects" (建设工程施工许可证).

(ii) In respect of the grant of individual home mortgage loans, the ratio between the loan amount and actual value of the security (the "**Mortgage Ratio**") shall never exceed 80%. Where an individual applies for a home purchase loan to buy a commercial property, the said property must have achieved the stage of "topping-out of the main structure completed" for multi-storey buildings and "two-thirds of the total investment completed" for high-rise buildings.

(iii) In respect of the grant of individual commercial flat loans, the Mortgage Ratio under the application for commercial flat loans shall not exceed 60% with a maximum loan period of 10 years and the subject commercial flat already completed.

The People's Bank of China issued the "Circular on Further Strengthening the Management of Loans for Property Business" (中国人民银行关于进一步加强房地产信贷业务管理的通知) in June 2003 to specify the requirements for banks to provide loans for the purposes of residential development, individual home mortgage and individual commodity houses as follows:

(i) Property development loans should be granted to property developers who are qualified for property development, rank high in credibility and have no overdue payment for construction. For property developers with commodity houses of high vacancy rate and debt ratio, strict approval procedures shall be applied for their new property development loans and their activities shall also be in the focus of attention.

(ii) Commercial banks shall not grant loans to property developers to pay off land premium.

(iii) Commercial banks may only provide housing loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his first residential unit, the first installment remains to be 20%. In respect of his loan application for additional purchase of residential unit(s), the percentage of the first installment shall be increased.

(iv) When a borrower applies for mortgaged loan of individual commodity house, the mortgage shall not be more than 60%. In addition, the term of the loan may not be more than 10 years and the commodity house shall be duly completed and accepted after inspection.

In the Circular on "Facilitating the Continuously Healthy Development of Property Market" (国务院关于促进房地产商场持续健康发展的通知) issued by the State Council in August 2003, a series of measures are contained for the government to control the property market. They include, but not limiting to, strengthening the construction and management of economical houses, increasing the supply of ordinary commodity houses and controlling the construction of high-end commodity houses. Besides, the government also staged a series of measures for the loan of housing development. They include, but not limiting to, putting more effort at provision of loans, improving the guarantee mechanism of individual home loans and strengthening the monitor over property loans. It is expected that the circular will have a positive effect on the development of the PRC property market in the long run by facilitating the continuously healthy growth of the property market.

Pursuant to the "Guidance on Risk Management of Property Loans Granted by Commercial Banks" (商业银行房地产贷款风险管理指引) issued by China Banking Regulatory Commission in September 2004, commercial banks may not be provided any loan in any form for a project without the State-Owned Land Use Rights Certificate, Construction Land Use Planning Permit, Construction Works Planning Permit and Construction Works Commencement Permit. Any property developer applying for property development loans shall have at least 35% of capital required for the development. A commercial bank should maintain a strict loan system for considering applications for property development loans.

13. REAL ESTATE MANAGEMENT

Pursuant to the "Regulations on Property Management" (物业管理条例) promulgated by the State Council in June 2003 and the "Qualification Management Method of Property Management Enterprise" (物业管理企业资质管理办法) re-promulgated by the Ministry of Housing and Urban-Rural Development in March, 2004, a real estate management enterprise shall apply for assessment of qualifications by the qualification approval authority. An enterprise which passes such a qualification assessment will be issued a qualification certificate evidencing the qualification classification by the authority. No enterprise may engage in real estate management without undertaking a qualification assessment conducted by the authority and then obtaining a qualification certificate.

14. EXCHANGE CONTROLS

14.1 Restrictions on Conversion of RMB into Foreign Currency

The principal regulation governing foreign currency exchange in the PRC is the "Foreign Exchange Administration Rules" (外汇管理条例) which was issued by the State Council in January 1996. The regulation became effective in April 1996 and was amended in January 1997 and August 2008. Under these rules, RMB is freely convertible for payments of current account items, including trade and service-related foreign exchange transactions and dividend payments, but not for capital account expenses, including direct investments, loans or investments in securities outside the PRC. RMB may only be converted for capital account expenses once the prior approval of SAFE has been obtained. Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions to commercial banks which are allowed to engage in foreign exchange business.

According to the Notice on Issues concerning Outward Remittance of Profits, Dividends and Distributions through Banks Authorised to Engage in Foreign Exchange Business (国家外汇管理局关于外汇指定银行办理利润、股息、红利汇出有关问题的通知) promulgated by SAFE on 22 September 1998, as amended by the "Notice on Amending the 'Notice on Issues concerning Outward Remittance of Profits, Dividends and Distributions through Banks Authorised to Engage in Foreign Exchange Business' " (国家外汇管理局关于修改《关于外汇指定银行办理利润、股息、红利汇出有关问题的通知》的通知) promulgated by SAFE on 21 September 1999 and effective from 1 October 1999, a foreign-invested company incorporated in the PRC may remit dividends to its offshore shareholders by duly providing requisite documents to a bank authorised to engage in foreign exchange business (including but not limited to tax clearance certificates issued by the competent tax authorities, board resolution on the distribution of dividends, and audit reports issued by accounting firms) provided that the registered capital of the said foreign-invested company has been paid in on time, otherwise additional approval by the authorities will be required.

However, the relevant PRC Government authorities (especially the SAFE), which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign-invested enterprises to purchase and remit foreign currencies in the future.

15. MAJOR TAXES APPLICABLE TO REAL ESTATE DEVELOPERS

15.1 Business Tax

Pursuant to the "Interim Regulations of the People's Republic of China on Business Tax" (中华人民共和国业税暂行条例) promulgated by the State Council in December 1993, the tax rate of the transfer of immovable properties, their superstructures and attachments is 5%.

15.2 Land Appreciation Tax

Pursuant to the "Provisional Regulations of the People's Republic of China on Land Appreciation Tax" (中华人民共和国土地增值税暂行条例) (the "**Provisional Regulations**") promulgated by the State Council on 13 December 1993 and effected on 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (中华人民共和国土地增值税暂行条例实施细则) (the "**Detailed Implementation Rules**") which was promulgated and effected on 27 January 1995, any appreciation amount gained from taxpayer's transfer of property shall be subject to land appreciation tax. Land appreciation tax is calculated based on a 4-band excess progressive tax rate: for the portion with appreciation not exceeding 50% of the deductible amount, the applicable tax rate is 30%; the applicable tax rate for the portion with appreciation exceeding 50% but not exceeding 100% of the deductible amount is 40%; the applicable tax rate for the portion exceeding 100% but not exceeding 200% of the deductible amount is 50%; the applicable tax rate for the portion exceeding 200% of the deductible amount is 60%.The related deductible items aforesaid include the following:

- amount paid for obtaining the land use right;
- costs and expenses for development of land;
- costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;
- related tax payable for transfer of property; and
- other deductible items as specified by the Ministry of Finance.

According to the requirements of the Provisional Regulations, the Detailed Implementation Rules and the "Notice issued by the Ministry of Finance in respect of the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts signed before 1 January 1994" (关于对一九九四年一月一日前签订开发及转让合同的房地产征免土地增值税的通知) which was announced by the Ministry of Finance on 27 January 1995, Land Appreciation Tax shall be exempted under any one of the following circumstances:

(i) Taxpayers constructing ordinary standard residences for sale (i.e. residences built in accordance with the local standard for general civilian-used residential properties. Deluxe apartments, villas, resorts etc. are not under the category of ordinary standard residences), where the appreciation amount does not exceed 20% of the sum of deductible items;

(ii) Real estate taken over and repossessed according to laws due to the construction requirements of the State;

(iii) Due to redeployment of work or improvement of living standards, individuals transfer originally self-used residential property, of which they have been residing in for 5 years or more, and after obtaining tax authorities' approval;

(iv) For real estate assignments which were signed before 1 January 1994, whenever the properties are transferred, Land Appreciation Tax shall be exempted;

(v) Where the real estates assignments were signed before 1 January 1994 or where the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, Land Appreciation Tax shall be exempted if the properties are transferred within 5 years after 1 January 1994 for the first time. The date of signing the assignment shall be the date of signing the Sale and Purchase Agreement. Particular real estates projects which are approved by the Government for the development of the whole piece of land and long-term development, of which the properties are transferred for the first time after the 5-year tax-free period, after auditing being conducted by the local financial and tax authorities, and approved by Ministry of Finance and State Taxation Bureau, the tax-free period would then be appropriately prolonged.

On 24 December 1999, the Ministry of Finance and the State Taxation Bureau issued the "Notice in respect of the extension of the period for the Land Appreciation Tax Exemption Policy" that extended the period for the Land Appreciation Tax exemption policy as mentioned in paragraph (v) hereinabove to the end of 2000.

After the enactment of the Provisional Regulations and the Detailed Implementation Rules, due to the longer period for the real estate development and transfer, many districts, while they were implementing the regulations and rules, did not force real estate development enterprises to declare and pay the Land Appreciation Tax. Therefore, in order to assist the local tax authorities in the collection of Land Appreciation Tax, the Ministry of Finance, State Taxation Bureau, Ministry of Construction and State Land Administration Bureau had separately and jointly issued several notices to re-state the following: After the assignments are signed, taxpayers should declare the tax to the local tax authorities where the real estates are located, and pay the Land Appreciation Tax in accordance with the amount as calculated by the tax authority and the time as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority shall not process the relevant title change procedures, and shall not issue the real estate title certificate.

The State Taxation Bureau also issued the "Notice issued by the State Taxation Bureau in respect of the Serious Handling of Administration Work in relation to the Collection of Land Appreciation Tax" on 10 July 2002 to request local tax authorities to modify the management system of Land Appreciation Tax collection and operation details, to build up a sound taxpaying declaration system for Land Appreciation Tax, to modify the methods of pre-levying for the pre-sale of real estates. That notice also pointed out that for the real estates assignments which were signed before 1 January 1994 or where the project proposal has been approved and capital was injected for development, the privilege policy for Land Appreciation Tax exemption for the properties that are transferred within 5 years after 1 January 1994 for the first time is expired, and such tax shall be levied again.

According to the "Circular on Several Issues of the Levy and Administration of Land Appreciation Tax" (关于土地增值税若干征管问题的通知) promulgated jointly by the State Administration of Taxation and the State Land Administration Bureau on February 1996 and the "Circular on Issues related to the Administration and Levy of the Land Appreciation Tax" (关于土地增值税征收管理有关问题的通知) promulgated by the State Administration of Taxation and the Ministry of Construction in April 1996, the taxation authorities all over the country should establish a whole system of the levy and administration of the Land Appreciation Tax in accordance with the related regulations and the above two circulars.

15.3 Deed Tax

Pursuant to the "Interim Regulations of the People's Republic of China on Deed Tax" (中华人民共和国契税暂行条例) promulgated by the State Council in July 1997, the transferee, whether an individual or otherwise, of the title to a land site or building in the PRC shall be the obliged taxpayer for deed tax. The rate of deed tax is 3% to 5%. The governments of provinces, autonomous regions and municipalities directly under the central government may, within the aforesaid range, determine and report their effective tax rates to the Ministry of Finance and State Administration of Taxation for the record.

Pursuant to the "Implementation Provisions on Deed Tax in Guangdong Province" (广东省契税实施方法) promulgated by the People's Government of Guangdong in May 1998, the rate of deed tax within Guangdong is 3%.

Pursuant to the "Several Opinions on Shanghai Implementing 'Interim Regulations of the People's Republic of China on Deed Tax' " (关于上海市贯彻《中华人名共和国契税暂行条例》的若干意见) 90 promulgated by the Shanghai Municipal Government on 31 December 1997, the rate of deed tax within Shanghai is 3%.

Pursuant to the "Implementation Provisions on 'Interim Regulations of the People's Republic of China on Deed Tax' in Jiangsu Province" (江苏省实施《中华人名共和国契税暂行条例》办法) promulgated by the People's Government of Jiangsu on 20 November 1998, the rate of deed tax within Jiangsu Province is 4%.

Pursuant to the "Implementation Provisions on Deed Tax in Sichuan Province" (四川省契税实施办法) promulgated by the People's Government of Sichuan on 21 May 1998, the rate of deed tax within Sichuan Province is 4%, but it can be adjusted downward to 3%.

Pursuant to the "Implementation Provisions on Collection of Deed Tax in Tianjin" (天津市契税征收实施办法) promulgated by the People's Government of Tianjin on 1 October 1997, the rate of deed tax within Tianjin is 3%.

Pursuant to the "Implementation Provisions on Deed Tax in Guizhou Province" (贵川省契税实施办法) promulgated by the People's Government of Guizhou on 10 September 1998, the rate of deed tax within Guizhou is 3%.

15.4 Land Use Tax

Pursuant to the "Interim Regulations of the People's Republic of China on Land Use Tax in respect of Urban Land" (中华人民共和国城镇土地使用税暂行条例) promulgated by the State Council in September 1988, the land use tax in respect of urban land is levied according to the area of relevant land.

15.5 Buildings Tax

Under the "Interim Regulations of the People's Republic of China on Buildings Tax" (中华人民共和国房产税暂行条例) promulgated by the State Council in September 1986, buildings tax shall be 1.2% if it is calculated on the basis of the residual value of a building, and 12% if it is calculated on the basis of the rental.

15.6 Stamp Duty

Under the "Interim Regulations of the People's Republic of China on Stamp Duty" (中华人民共和国印花税暂行条例) promulgated by the State Council in August 1988, for building property transfer instruments, including those in respect of property ownership transfer, the duty rate shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including real estate title certificates and land use rights certificates, stamp duty shall be levied on an item basis at an annual rate of RMB5 per item.

15.7 Municipal Maintenance Tax

Under the "Interim Regulations of the People's Republic of China on Municipal Maintenance Tax" (中华人民共和国城市维护建设税税暂行条例) promulgated by the State Council in February 1985, any taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county or a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

15.8 Education Surcharge

Under the "Interim Provisions on Imposition of Education Surcharge" (征收教育费附加的暂行规定) promulgated by the State Council in April 1986 (lastly revised by the State Council in August 2005), any taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the "Notice of the State Council on Raising Funds for Schools in Rural Areas" (国务院关于筹措农村学校办学经费的通知). Education surcharges shall be calculated and levied at a rate of 1% on the actual amount of product tax, value-added tax and business tax paid by the taxpayer.

15.9 Tax on Adjustment of Fixed Asset Investment Orientation

Under the "Interim Regulations of the People's Republic of China on Tax on Adjustment of Fixed Asset Investment Orientation" (中华人民共和国固定资产投资方向调节税暂行条例) promulgated by the State Council in April 1991, the tax rate shall be 5% in the case of general residential housing (including commodity housing), and 30% in the case of villa-styled residential housing.

15.10 Corporate Income Tax

Pursuant to the "Interim Regulations of the Corporate Income Tax of the People's Republic of China" (中华人民共和国企业所得税暂行条例) promulgated by the State Council in December 1993, state-owned enterprise, collective-owned enterprise, private enterprise, coordinated enterprise, share-issuing enterprise and other organizations within the territory of China which have production and management income or other income, are taxpayers of the corporate income tax. The corporate income tax rate is 33%.

Pursuant to the "Interim measures of Corporate Income Tax Levied upon Deemed Income" (核定征收企业所得税暂行办法) promulgated by the State General Tax Bureau and implemented in January 2000, under one of the following situations, taxpayer should be imposed corporate income tax levied upon deemed income: 1) Need not set up the account book or should set up but not set up account book in accordance with the rules and regulations of the tax revenue; 2) Can only check and calculate gross income accurately, or can check and verify gross income but cannot check and calculate the cost expenses expenditure accurately; 3) Can only check and calculate the cost expenses expenditure accurately, or can check and verify the cost expenses expenditure but cannot check and calculate gross income accurately; 4) Cannot check and calculate the gross income and cost expenses expenditure correctly, cannot provide true, accurate and intact materials of paying taxes to the tax authority in charge, difficult to check and verify; 5) Account's set up, check and calculation accord with regulations, but relevant account book, evidence and relevant paying taxes materials cannot be saved according to regulations; 6) The tax obligation happens, but do not handle tax application according to the time limits of the rules and regulations of the tax revenue; upon the tax authority's order of tax application within a definite time period, do not apply on the expiration of the time limit. The taxpayer authorised to levy by deemed income, shall not enjoy any preferential policy of the corporate income tax. Tax bureau of province, autonomous region, municipality directly under the Central Government and city under direct planning by the state can follow this regulation, combine the local actual conditions, make the concrete implementing method, and submit to State General Tax Bureau for record.

Pursuant to "Income Tax Law of Foreign-investment Enterprise and Foreign Enterprise of the People's Republic of China" (中华人名共和国外商投资企业和外国企业所得税法) promulgated by the State People's Congress in April 1991, production, management income and other incomes of the foreign-investment enterprise and foreign enterprise within the territory of China shall pay the income tax. For the foreign-investment enterprise and foreign enterprise set up organization or place engaged in producing and management within the territory of China, the income tax should be calculated by taxable income volume, the tax rate of 30%, the local income tax is calculated according to taxable income volume, the tax rate is 3%. For the foreign enterprise has not set up the organization or place within the territory of China, and there was income that obtained from profit, interest, rent, royalty for the right of special permission and other incomes within the territory of China, or set up organization or place, but the above-mentioned income has no actual connection with its organization and place, has to pay the income taxes of 20% of the tax rates.

Pursuant to the "Notice of Allowed Reduce Income Tax of Foreign Enterprise's Interest Source From the Territory of China" (关于外国企业来源于我国境内的利息等所得减征所得税问题的通知) promulgated by the State Council in November, 2000 (implemented in 1 January 2000), since 1 January 2000, for the foreign enterprises has not set up organization or place within the territory of China, its interest, rent, royalty for the right of special permission and other incomes obtained from China, or although there are organization or place, but above-mentioned several incomes has no actual connection with its organization or place has to pay the reduced corporate income tax according to 10% of the tax rates.

YICHANG XINSHOUGANG PROPERTY DEVELOPMENT COMPANY LIMITED AND ITS SUBSIDIARY

(Incorporated in the People's Republic of China)
(Registration Number: 420521000003848)

Consolidated Financial Statements for the financial years ended 31 December 2010, 2011 and 2012

YICHANG XINSHOUGANG PROPERTY DEVELOPMENT COMPANY LIMITED AND ITS SUBSIDIARY

(Incorporated in the People's Republic of China)

Consolidated Financial Statements for the financial years ended 31 December 2010, 2011 and 2012

Contents

24 July 2013

The Board of Directors
China International Holdings Limited
Room 3001, Shun Tak Centre, West Tower
168 – 200 Connaught Road Central
Hong Kong

Dear Sirs

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Yichang Xinshougang Property Development Company Limited and its subsidiary (the "Group") set out on pages C-6 to C-27, which comprise the consolidated statement of financial position as at 31 December 2010, 2011 and 2012 and the consolidated statement of comprehensive income, changes in equity and cash flows for the financial years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; that transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements that give a true and fair view based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements of the Group are properly drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group as at 31 December 2010, 2011 and 2012, and of the results, changes in equity and cash flows of the Group for the financial years ended on that date.

Other matters

The consolidated financial statements have been prepared by the management of the Group to meet the provision set out in the Listing Rules of the Singapore Exchange Securities Trading Limited, 'SGX', in connection with the proposed acquisition of the 55% interest in the issued and paid up capital of the Group.

The consolidated financial statements are prepared to assist China International Holdings Limited to comply with the provision set out in the Listing Rules of the SGX.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants
Director-in-charge: Philip Tan Jing Choon

Singapore

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the financial years ended 31 December 2010, 2011 and 2012

	Note	2010 RMB'000	2011 RMB'000	2012 RMB'000
Revenue	4	–	–	171,429
Cost of sales		–	–	(116,680)
Gross profit		–	–	54,749
Other income	5	95	123	158
Expenses				
Selling and distribution		(33)	(11,019)	(6,940)
Administrative		(1,269)	(993)	(1,747)
(Loss)/profit before income tax		(1,207)	(11,889)	46,220
Income tax expense	8	–	–	(8,442)
Total comprehensive (loss)/income, representing net (loss)/profit		(1,207)	(11,889)	37,778

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010, 2011 and 2012

	Note	2010 RMB'000	2011 RMB'000	2012 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	9	21,199	30,728	46,621
		21,199	30,728	46,621
Current assets				
Cash and cash equivalents	10	9,679	36,878	51,578
Trade receivables	11	–	–	11,051
Prepayments, deposits and other receivables	12	225	9,416	4,925
Properties for development	13	266,791	408,634	427,019
		276,695	454,928	494,573
Current liabilities				
Trade payables	14	2,127	27,999	1,404
Other payables and accruals	15	91,307	99,458	135,868
Receipts in advance		–	83,479	54,781
Due to intermediate holding corporation	16	186,267	186,267	186,267
Current income tax liabilities		–	–	6,468
		279,701	397,203	384,788
NET CURRENT (LIABILITIES)/ASSETS		(3,006)	57,725	109,785
TOTAL ASSETS LESS CURRENT LIABILITIES		18,193	88,453	156,406
Non-current liabilities				
Borrowings	17	–	82,149	112,174
		–	82,149	112,174
NET ASSETS		18,193	6,304	44,232
EQUITY				
Equity attributable to owners of the Company				
Share capital	18	20,000	20,000	20,000
Reserves		–	–	2,408
(Accumulated losses)/retained profits		(1,807)	(13,696)	21,674
		18,193	6,304	44,082
Non-controlling interests		–	–	150
TOTAL EQUITY		18,193	6,304	44,232

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial years ended 31 December 2010, 2011 and 2012

	Attributable to owners of the Company					
	Share capital	Statutory surplus reserve *	(Accumulated losses)/ retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010						
Beginning of financial year	20,000	–	(600)	19,400	–	19,400
Total comprehensive loss	–	–	(1,207)	(1,207)	–	(1,207)
End of financial year	20,000	–	(1,807)	18,193	–	18,193
2011						
Beginning of financial year	20,000	–	(1,807)	18,193	–	18,193
Total comprehensive loss	–	–	(11,889)	(11, 889)	–	(11, 889)
End of financial year	20,000	–	(13,696)	6,304	–	6,304
2012						
Beginning of financial year	20,000	–	(13,696)	6,304	–	6,304
Issue of shares	–	–	–	–	150	150
Total comprehensive income	–	–	37,778	37,778	–	37,778
Transfer	–	2,408	(2,408)	–	–	–
End of financial year	20,000	2,408	21,674	44,082	150	44,232

* As stipulated by the relevant laws and regulations in the PRC, the Group are required to provide for statutory surplus reserve fund. Appropriations to such reserve funds are made out of 10% of net profit after tax of the statutory financial statements of the Group. The statutory surplus reserve fund can be used to make up prior year losses of the Group, if any, and can be applied in conversion into capital by means of capitalisation issue. The statutory surplus reserve is non-distributable.

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the financial years ended 31 December 2010, 2011 and 2012

	Note	2010 RMB'000	2011 RMB'000	2012 RMB'000
Cash flows from operating activities				
Net (loss)/profit		(1,207)	(11,889)	37,778
Adjustments for:				
- Income tax expense		–	–	8,442
- Depreciation of property, plant and equipment		34	136	549
- Interest income		(95)	(123)	(98)
		(1,268)	(11,876)	46,671
Change in working capital:				
- Trade receivables		–	–	(11,051)
- Prepayments, deposits and other receivables		(60)	(9,191)	4,491
- Properties for development		(136,634)	(141,694)	(18,360)
- Trade payables		2,127	25,872	(26,595)
- Other payables and accruals		91,301	8,151	36,410
- Receipts in advance		–	83,479	(28,698)
- Due to intermediate holding corporation		75,326	–	–
Cash generated from/(used in) operations		30,792	(45,259)	2,868
Income tax paid		–	–	(1,974)
Net cash provided by/(used in) operating activities		30,792	(45,259)	894
Cash flows from investing activities				
Purchase of property, plant and equipment		(21,220)	(9,665)	(16,442)
Interest received		95	123	98
Net cash used in investing activities		(21,125)	(9,542)	(16,344)
Cash flows from financing activities				
Proceeds from borrowings		–	82,000	30,000
Proceeds from issuance of ordinary shares to non-controlling interests		–	–	150
Additions of pledged deposit		–	(788)	(694)
Net cash provided by financing activities		–	81,212	29,456
Net increase in cash and cash equivalents		9,667	26,411	14,006
Cash and cash equivalents at beginning of the financial year		12	9,679	36,090
Cash and cash equivalents at end of the financial year	10	9,679	36,090	50,096

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

These notes form an integral part of and should be read in conjunction with the accompanying consolidated financial statements.

1. General information

Yichang Xinshougang Property Development Company Limited (the "Company") is incorporated and domiciled in the People's Republic of China (the "PRC"). The address of its registered office is No. 166-6, Fa Zhan Da Dao, Yilin District, Yichang, the People's Republic of China.

The principal activities of the Company are those of property development and asset management.

The immediate and intermediate holding corporations are Shoukong (Beijing) Management Consulting Company Limited and Shuren Wood (Shenzhen) Company Limited respectively. Both are incorporated in PRC. The penultimate and ultimate holding corporations are Triumph Kind Investment Limited and China Resources and Transportation Group Limited respectively. Both are incorporated in Hong Kong.

The principal activity of the subsidiary is shown in the Note 26 to the consolidated financial statements.

2. Summary of significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The consolidated financial statements are presented in Renminbi ("RMB") and all values in the tables are rounded to the nearest thousand (RMB'000) as indicated.

The preparation of consolidated financial statements in conformity with IFRS 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 3 to the consolidated financial statements.

Interpretations and amendments to published standards effective in 2010, 2011 and 2012

The Group adopted the new or amended IFRS that are mandatory for application for the respective financial years. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS. The adoption of these new or amended IFRS did not result in substantial changes to the accounting policies of the Group and had no material effect on the amounts reported for the current or prior financial years.

2. Summary of significant accounting policies (Cont'd)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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 acquired on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

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 IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

2. Summary of significant accounting policies (Cont'd)

2.2 Consolidation (Cont'd)

(a) Subsidiaries (Cont'd)

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured 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. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the ordinary course of business of the Group. Revenue is presented net of value-added tax, rebates and discounts.

The Group recognises revenue when the amount of revenue and related cost, can be reliably measured, it is probable that the future economic benefits will flow to the entity when the specific criteria for each of the Group's activities are met as follows:

(i) Revenue on sale of properties held for sale

Revenue from sale of development properties held for sale in respect of sale and purchase agreements entered into prior to completion of construction is recognised when the properties are delivered to the buyers, such transfer generally occurs when the property units are completed and delivered to the purchasers. Revenue is recognised upon completion of construction.

(ii) Interest income

Interest income is recognised using the effective interest method.

2. Summary of significant accounting policies (Cont'd)

2.4 Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates 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.

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; 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 end of the reporting period 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.

Deferred income tax is provided on temporary differences arising on 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.

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 same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.5 Employee benefits

Pension obligations

The Group is required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the employees of the Group.

Pension contributions are recognised as an expense in the period in which related services are performed.

2. Summary of significant accounting policies (Cont'd)

2.6 Borrowing costs

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

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

2.7 Foreign currency translation

(a) Functional and presentation currency

The consolidated financial statements are presented in 'Renminbi' ("RMB"), which is the functional currency of the Company.

(b) 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 profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other (losses)/gains – net'.

(c) 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each 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 rate on 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.

2. Summary of significant accounting policies (Cont'd)

2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

When assets are sold or retired, their costs, accumulated depreciation and accumulated impairment losses are eliminated from the consolidated financial statements and any gain or loss on disposal of property, plant and equipment, being the difference between the net sale proceeds and the carrying amount of the relevant asset, is recognised in the statement of comprehensive income.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over the estimated useful lives, as follows:

	Useful lives
Office building	20 years
Office equipment	5 years
Furniture and fittings	5 years
Motor vehicles	5 years

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

Construction in progress represents office building under construction and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in profit or loss.

2.9 Properties held for sale

Properties held for sale are those which are intended for sale in the ordinary course of business. Properties held for sale which are unsold are carried at the lower of cost and estimated net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business less costs to complete the development and selling expenses. Cost of properties held for sale includes land, construction and related development costs and interest on borrowings obtained to finance the purchase and construction of the properties.

2. Summary of significant accounting policies (Cont'd)

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets 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 to sell 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.

2.11 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value, less cash subject to restriction.

2.12 Bank balances

Trade and other receivables

Bank balances, trade and other receivables are initially recognised at their fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method, less accumulated impairment losses.

The Group assesses at end of each reporting period whether there is objective evidence that these financial assets are impaired and recognises an allowance for impairment when such evidence exists. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amounts of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flow, discounted at the original effective interest rate.

These assets are presented as current assets except for those that are expected to be realised later than 12 months after the end of the reporting period which are presented as non-current assets.

2.13 Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case they are presented as non-current liabilities.

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

2. Summary of significant accounting policies (Cont'd)

2.14 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.15 Provisions

Provisions 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. 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.

2.16 Fair value estimation of financial assets and liabilities

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

3. 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) Revenue recognition on sales of properties hold for sale

The assessment of when an entity has transferred the significant risks and rewards of ownership to buyers requires the examination of the circumstances of the transaction. In most cases, the transfer of risks and rewards of ownership coincides with the date when the equitable interest in the property vests with the buyer upon release of the respective property to the buyer.

3. Critical accounting estimates and judgements (Cont'd)

(a) Revenue recognition on sales of properties held for sale (Cont'd)

As disclosed in Note 19 to the consolidated financial statements, the Group provided guarantees in respect of mortgage facilities granted by local government authority and certain financial institutions relating to the mortgage loans arranged for certain purchasers of the Group's properties. These guarantees will normally be discharged upon issuance of the real estate ownership certificate which are generally be available within three months after the purchasers take possession of the relevant properties. In order to obtain mortgages, the purchasers would have settled no less than 30% of the total contract amount in accordance with related PRC regulations upon signing the sales contract. The directors of the Group are of the opinion that such settlements provide sufficient evidence of the purchasers' commitment to honour contractual obligation of the bank loans. Further, as disclosed in Note 22(b) to the consolidated financial statements, the credit risk of the Group under the circumstance that a purchaser defaults on the payment of its mortgage during the term of the guarantee is very low.

(b) Estimated net realisable value on properties under development for sale

In determining whether allowances should be made for the Group's properties under development for sale, the Group takes into consideration the current market environment and the estimated market value (i.e. the estimated selling price less estimated costs of selling expenses) less estimated costs to completion of the properties. An allowance is made if the estimated market value is less than the carrying amount. If the actual net realisable value on properties under development for sale is less than expected as a result of change in market condition and/or significant variation in the budgeted development cost, material provision for impairment losses may result. The carrying amount for the properties under development for sale is approximately RMB80,000,000 (2011 and 2010: Nil) and the carrying amount for the properties under development is approximately RMB347,000,000 (2011: RMB409,000,000 and 2010: RMB267,000,000).

4. Revenue

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Sales of properties held for sale	–	–	181,598
Less: PRC business tax and value added tax	–	–	(10,169)
	–	–	171,429

5. Other income

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Interest income from banks	95	123	98
Others	–	–	60
	95	123	158

6. (Loss)/profit before income tax

The following items have been included in arriving at (loss)/profit before income tax:

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Advertising expenses	10	8,617	4,976
Depreciation of property, plant and equipment	9	21	334
Entertainment	205	237	300
Employee compensation (Note 7)	279	478	785
Marketing agent fees	–	689	885
Office expenses	301	131	127
Printing expense	–	251	94
Professional fees	62	–	200

7. Employee compensation

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Salaries, wages and bonuses	239	414	705
Staff welfare	32	24	25
Employer's contribution to defined contribution plan	8	40	55
	279	478	785

Employee compensation of RMB1,649,000 (2011: RMB893,000 and 2010: RMB616,000) has been capitalised and included in the development properties.

8. Income tax expense

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Tax expense attributable to profit is made up of:			
- Current income tax	–	–	8,442

8. Income tax expense (Cont'd)

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using PRC standard rate of income tax is as follows:-

	2010 RMB'000	2011 RMB'000	2012 RMB'000
(Loss)/profit before income tax	(1,207)	(11,889)	46,220
Tax calculated at tax rate of 25%	(302)	(2,972)	11,555
Effect of:			
- Tax losses for which no deferred income tax asset was recognised	302	2,972	–
- Utilisation of previously unrecognised tax losses	–	–	(3,424)
- Others	–	–	311
	–	–	8,442

9. Property, plant and equipment

	Office equipment RMB'000	Furniture and fittings RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
2010					
Cost					
Beginning of financial year	18	–	–	–	18
Additions	66	30	207	20,917	21,220
End of financial year	84	30	207	20,917	21,238
Accumulated depreciation					
Beginning of financial year	5	–	–	–	5
Depreciation charge	8	2	24	–	34
End of financial year	13	2	24	–	39
Net book value					
End of financial year	71	28	183	20,917	21,199
2011					
Cost					
Beginning of financial year	84	30	207	20,917	21,238
Additions	166	506	269	8,724	9,665
End of financial year	250	536	476	29,641	30,903
Accumulated depreciation					
Beginning of financial year	13	2	24	–	39
Depreciation charge	31	36	69	–	136
End of financial year	44	38	93	–	175
Net book value					
End of financial year	206	498	383	29,641	30,728

9. Property, plant and equipment (cont'd)

	Office building	Office equipment	Furniture and fittings	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2012						
Cost						
Beginning of financial year	–	250	536	476	29,641	30,903
Transfer	3,754	–	–	–	(3,754)	–
Additions	126	262	44	4,439	11,571	16,442
End of financial year	3,880	512	580	4,915	37,458	47,345
Accumulated depreciation						
Beginning of financial year	–	44	38	93	–	175
Depreciation charge	173	58	107	211	–	549
End of financial year	173	102	145	304	–	724
Net book value						
End of financial year	3,707	410	435	4,611	37,458	46,621

Depreciation charge of RMB215,000 (2011: RMB115,000 and 2010: RMB25,000) has been capitalised and included in the development properties.

10. Cash and cash equivalents

	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cash on hand	10	3	11
Cash at banks	9,669	36,087	50,085
Pledged deposit and restricted cash	–	788	1,482
	9,679	36,878	51,578

Details of pledged deposit and restricted cash are as follow:

	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Restricted cash from pre-sale of properties for properties under development for sale [(a)]	–	788	1,482

(a) Amounts represent cash deposited in certain banks as guarantee deposits for the mortgage loan facilities granted by the banks to the purchasers of the Group's properties under development for sale. Such guarantee will only be released after the loan has been settled or issuance of the real estate ownership certificate to the purchaser, whichever is earlier.

10. Cash and cash equivalents (Cont'd)

For the purpose of presenting the consolidated statement of cash flows, the cash and cash equivalents comprise the following:

	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Cash and bank balances (as above)	9,679	36,878	51,578
Less: Pledged deposit	–	(788)	(1,482)
Cash and cash equivalents per consolidated statement of cash flows	9,679	36,090	50,096

11. Trade receivables

	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Trade receivables from non-related parties	–	–	11,051

12. Prepayments, deposits and other receivables

	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Prepayments	–	7,314	1,770
Deposits	220	2,097	2,752
Other receivables from non–related parties	5	5	403
	225	9,416	4,925

Included in prepayments is the prepaid value-added taxes of RMB1,611,000 (2011: RMB7,295,000 and 2010: Nil).

Included in deposits is the cash deposited in local government authority of RMB676,000 (2011: RMB215,000 and 2010: Nil) as guarantee deposits for the mortgage loan facilities granted by the banks to the purchasers of the Group's properties under development for sale. Such guarantee will only be released after the loan has been settled or issuance of the real estate ownership certificate to the purchaser, whichever is earlier.

13. Properties for development

	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Properties held for sale	–	–	79,523
Properties under development	266,791	408,634	347,496
Total development properties	266,791	408,634	427,019

13. Properties for development (Cont'd)

Borrowing costs of RMB8,058,000 (2011: RMB10,391,000 and 2010: RMB7,645,000) were capitalised during the respective financial years. A capitalisation rate of 6.15% to 6.65% per annum was used, representing the borrowing costs of the loans used to finance the projects.

Details of properties for development as at 31 December 2012 are as follow:

Location	Title	Approximate site area (sq. m)	Main usage
Meiziya Village, Xiaoxita, Yiling District, Yichang City, Hubei Province, PRC	The property is subject to a right to use of land till (i) 28 December 2046 for commercial, tourism and convention purpose and; (ii) 28 December 2076 for residential purpose	454,090	Residential
		40,920	Commercial
		92,716	Hotel and international convention centre
		587,726	

14. Trade payables

Trade payables generally have credit terms ranging from 0 to 30 days and are denominated in Renminbi.

15. Other payables and accruals

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Other payables to non-related parties	71,010	81,140	86,980
Accrued operating expenses	20,297	18,318	48,888
	91,307	99,458	135,868

Included in other payables to non-related parties as at the respective financial years is an amount of RMB50 million payable to Hubei Dafang Properties Development Company Limited ("Dafang Properties").

On 16 August 2010, the Group entered into a joint development agreement with Dafang Properties for the development of several complex commercial and residential properties, including Yichang Three Gorges International Convention Centre ("Convention Centre"), the Three Gorges State Guest House ("Guest House") and the Three Gorges State Guest Garden Commercial Property (collectively the "Yichang Project").

According to the agreement, the Group will provide a parcel of land located at Meiziya Village, Yiling District, Yichang City, Hubei Province and Dafang Properties will provide funding for all necessary development and construction costs for the property project except for borrowing costs for Convention Centre and Guest House which will be shared by the Group and Dafang Properties on 65:35 basis. In FY2011, the Group has contributed a parcel of land while Dafang Properties has provided funding for all necessary development and construction costs for the Yichang Project.

15. Other payables and accruals (Cont'd)

The Group and Dafang Properties agreed to share the after tax distributable profit attributable to the Three Gorges State Guest Garden Commercial Property on a 60:40 basis, and share the economic benefit attributable to the Yichang Three Gorges International Convention Centre and the Three Georges State Guest House on a 65:35 basis.

On 26 November 2012, the said joint development agreement was terminated and the amount payable to Dafang Properties of RMB40 million were refunded subsequent to the financial year ended 31 December 2012.

The amount due to Dafang Properties is unsecured, interest-free and with no fixed term of repayment.

16. Due to intermediate holding corporation

The amount due to intermediate holding corporation is unsecured, interest-free and with no fixed term of repayment.

Included in the amount due to intermediate holding corporation is an amount of RMB105,326,000 for a government grant granted to the previous shareholder and subsequently assigned to the intermediate holding corporation during the share transfer exercise completed in September 2010. Upon the assignment and transfer of the said government grant, any benefit entitled to or liability assumed, will be received or borne by the intermediate holding corporation.

The government grant was received in 2007 in the form of a foregivable payable on the partial land premium in respect of a piece of land situated in Yichang City, Hubei, PRC. The grant is subject to the Company fulfill certain terms and conditions as set out in the Land Use Rights Contract and the supplemental contract. Pursuant to the Land Use Rights Contract and the supplemental contract, the Company had committed to invest approximately RMB650 million to develop this piece of land during 2007.

17. Borrowings

	2010	**2011**	**2012**
	RMB'000	**RMB'000**	**RMB'000**
Non-current – secured			
Bank borrowings	–	82,149	112,174

Bank borrowings are secured by a pledged deposit (Note 10).

At the end of the reporting period, the fair values of non-current borrowings approximate their carrying amounts.

The fair values are determined from the cash flow analysis, discounted at annual market borrowing rates of an equivalent instrument at the end of the reporting period which management expect to be available to the Group as follows:

	2010	**2011**	**2012**
	%	**%**	**%**
Bank borrowings	–	6.40 - 6.65	6.15 – 6.65

18. Share capital

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Registered capital	20,000	20,000	20,000
<u>Paid-up capital</u>			
Beginning and end of the financial year	20,000	20,000	20,000

19. Contingent liabilities

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Guarantees in respect of mortgage facilities for certain purchasers	–	27,664	69,763

The Group was in cooperation with local government authority and certain financial institutions arranged mortgage loan facility for its purchasers of property and provided guarantees to secure obligations of such purchasers for repayments. As at 31 December 2012, the outstanding guarantees amounted to RMB69,763,000 (2011: RMB27,664,000 and 2010: Nil). Such guarantees will be discharged upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within three months after the purchasers take possession of the relevant property; and (ii) the satisfaction of relevant mortgage loan by purchasers.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with any accrued interest and penalty owed by the defaulted purchasers to the banks, and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee starts from the dates the mortgagees grant the mortgage loans. No provision has been made for the guarantees as the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty in case of any default in payments.

20. Capital commitments

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Contracted but not provided for investment on properties under development for sale	364,292	215,479	185,523

Pursuant to a Contract for the Grant of State-owned Land Use Rights No. Yichang City Yiling District Yi Zeng Guo Rang (He) Zi (2006) Di 438 Hao dated 29 December 2006 (hereinafter referred to as the "Contract") made between the Land Resource Bureau of Yichang City Yiling District and Yichang Xinshougang, it was agreed that the total investment for the development would be approximately RMB650,000,000. Up to 31 December 2012, the total investment in the property development was RMB464,477,000 (2011: RMB434,521,000 and 2010: RMB285,708,000).

21. Related party transactions

Key management personnel compensation

Key management personnel compensation is as follows:

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Salaries, wages and bonuses	254	350	572

22. Financial risk management

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

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The management team then establishes the detailed policies such as risk identification and measurement and exposure limits.

(a) Market risk

(i) Currency risk

Foreign currency risk arises from transactions denominated in currencies other than the functional currency of the entities of the Group. The Group's business operations are not exposed to significant foreign currency risks as it has no significant transactions denominated in foreign currencies.

(ii) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The following table sets out the carrying amounts as at 31 December, by maturity or repricing, whichever is earlier, of the financial instruments of the Group that are exposed to interest rate risk:

	Between 1 and 5 years RMB'000
Financial liabilities	
Fixed rate	
Bank borrowings	
2011	82,000
2012	112,000

The Group is not exposed to changes in interest rates for fixed rate financial liabilities.

22. Financial risk management (Cont'd)

(b) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

There is no significant credit risk as the outstanding balance is mainly due from financial institutions in relation to the release of customers' borrowing of mortgage loans.

For properties that are still under construction, the Group provides guarantees to local government authority and certain financial institutions in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the customer's deposit and sell the property to recover any amounts paid by the Group to the bank. Unless the selling price would drop by 30%, which is remote, the Group would not be in a loss position in selling those properties out. In this regard, the directors of the Group consider that the credit risk is significantly reduced (refer to Note 3(a) to the consolidated financial statements for more information).

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in Note 19 to the consolidated financial statements.

(c) Liquidity risk

The management is to ensure that the Group has sufficient funds to meet its contractual and financial obligations. To manage liquidity risk, the Group monitors its net operating cash flow and maintains a level of cash and cash equivalents, deemed adequate by management for working capital purposes so as to mitigate the effectiveness of cash flows.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
2010			
Trade and other payables	277,701	–	277,701
2011			
Trade and other payables	397,352	–	397,352
Borrowings	5,440	89,682	95,122
	402,792	89,682	492,474
2012			
Trade and other payables	382,180	–	382,180
Borrowings	7,308	115,179	122,487
	389,488	115,179	504,667

22. Financial risk management (Cont'd)

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and maintain an optimal capital structure so as to maximise shareholders value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, issue new shares, obtain new borrowings or sell assets to reduce borrowings.

The Group is not subject to any externally imposed capital requirements.

23. Segment information

The Group operates predominantly in two business segment, which is the property development segment and real estate management segment. As at 31 December 2012, there is no asset and revenue contribution from the real estate management segment. Accordingly, no segmental information is presented based on business segment.

No segmental information by geographical location is presented as all the revenue in the financial year ended 31 December 2012 was derived in PRC.

24. New accounting standards and IFRS interpretations

Certain new accounting standards and interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2013. The Group does not expect that adoption of these accounting standards or interpretations will have a material impact on the Group's consolidated financial statements.

25. Authorisation of consolidated financial statements

These consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 24 July 2013.

26. Listing of subsidiary in the Group

Name of companies	Principal activities	Country of business/ incorporation	Equity holding 2010	2011	2012
			%	%	%
宜昌中翔物业管理有限公司[a]	Real estate management	The People's Republic of China	–	–	70

[a] Newly incorporated on 13 November 2012.

CHINA INTERNATIONAL HOLDINGS LIMITED AND ITS SUBSIDIARIES

(INCORPORATED IN BERMUDA)
(COMPANY REGISTRATION NO.: 23356)

Independent and Reporting Auditor's Report on Examination of the Unaudited Pro Forma Consolidated Financial Statements of the Enlarged Group for the financial years ended 31 December 2010, 2011 and 2012

CHINA INTERNATIONAL HOLDINGS LIMITED AND ITS SUBSIDIARIES

(Incorporated in Bermuda)

Independent and Reporting Auditor's Report on Examination of the Unaudited Pro Forma Consolidated Financial Statements of the Enlarged Group for the financial years ended 31 December 2010, 2011 and 2012

Contents

24 July 2013

The Board of Directors
China International Holdings Limited
Room 3001, Shun Tak Centre, West Tower
168 – 200 Connaught Road Central
Hong Kong

Dear Sirs

This report has been prepared for inclusion in the circular to shareholders (the "Circular") of China International Holdings Limited (the "Company") and its subsidiaries (the "Group") in connection with the proposed acquisition of 55% interest in the issued and paid up capital of Yichang Xinshougang Property Development Company Limited ("XSG") (the "Proposed Acquisition").

We report on the Unaudited Pro Forma Consolidated Financial Statements of the Group after the completion of the Proposed Acquisitions (collectively, the "Enlarged Group") set out on pages D-5 to D-80 of the Circular, which have been prepared for illustrative purposes only, in accordance with the provision set out in the Listing Rules of the Singapore Exchange Securities Trading Limited and are based on certain assumptions after making certain adjustments to show what: –

(a) the Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group for the financial years ended 31 December 2010, 2011 and 2012 would have been if the Proposed Acquisition had occurred on 1 January 2010 (as described in Note 3 to the Unaudited Pro Forma Consolidated Financial Statements);

(b) the Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as at 31 December 2012 would have been if the Proposed Acquisition had occurred on 31 December 2012; and

(c) the changes in equity, and cash flows of the Enlarged Group for the financial year ended 31 December 2012 would have been if the Proposed Acquisition had occurred on 1 January 2012.

The Unaudited Pro Forma Consolidated Financial Statements of the Enlarged Group, because of their nature, may not give a true picture of the Enlarged Group's actual financial position, results, changes in equity and cash flows.

The Unaudited Pro Forma Consolidated Financial Statements are the responsibility of the directors of China International Holdings Limited (the "Directors"). Our responsibility is to express an opinion on the Unaudited Pro Forma Consolidated Financial Statements based on our work.

We carried out procedures in accordance with Singapore Statement of Auditing Practice ("SSAP") 24: "Auditors and Public Offering Documents". Our work, which involved no independent examination of the underlying financial statements, consisted primarily of comparing the Unaudited Pro Forma Consolidated Financial Statements to the financial statements (or where statements is not available in the financial statements of these entities, to accounting records) considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Consolidated Financial Statements with the Directors.

In our opinion,

(a) the Unaudited Pro Forma Consolidated Financial Statements have been properly prepared:

  (i) in a manner consistent with the accounting policies of the Enlarged Group; and

  (ii) on the basis set out in Note 3 to the Unaudited Pro Forma Consolidated Financial Statements; and

(b) each material adjustment made to the information used in the preparation of the Unaudited Pro Forma Consolidated Financial Statements is appropriate for the purpose of preparing such financial statements.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants
Director-in-charge: Philip Tan Jing Choon

Singapore

UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

For the financial years ended 31 December 2010, 2011 and 2012

	Note	2010 RMB'000	2011 RMB'000	2012 RMB'000
Continuing operations				
Revenue	8	11,094	76,814	229,328
Cost of sales		(5,091)	(39,344)	(144,377)
Gross profit		6,003	37,470	84,951
Other income - net	9	41,334	8,402	23,391
Administrative expenses		(16,803)	(13,141)	(16,024)
Other operating expenses		(13,342)	(19,544)	(17,652)
Selling and distribution expenses		(33)	(11,019)	(6,940)
Operating profit		17,159	2,168	67,726
Finance costs	10	(23,040)	(23,040)	(25,460)
Share of losses of associated companies		(80)	(701)	(913)
Share of profits of jointly controlled entity		5,861	–	–
(Loss)/profit before income tax		(100)	(21,573)	41,353
Income tax expense	12	(4,396)	(6,392)	(13,679)
(Loss)/profit for the financial year from continuing operations		(4,496)	(27,965)	27,674
Discontinued operations				
Profit for the financial year from discontinued operations	14	7,834	3,862	992
Profit/(loss) for the financial year		3,338	(24,103)	28,666
Other comprehensive (loss)/income:				
Exchange differences on translating foreign operations		–	(2,495)	209
Other comprehensive (loss)/income for the financial year, net of tax		–	(2,495)	209
Total comprehensive income/(loss) for the financial year		3,338	(26,598)	28,875
(Loss)/profit for the financial year attributable to:				
Owners of the Company		(82)	(29,444)	3,024
Non-controlling interests		3,420	5,341	25,642
		3,338	(24,103)	28,666
Total comprehensive income/(loss) for the financial year attributable to:				
Owners of the Company		(82)	(31,939)	3,233
Non-controlling interests		3,420	5,341	25,642
		3,338	(26,598)	28,875

The accompanying notes form an integral part of these Unaudited Pro Forma Consolidated Financial Statements.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

For the financial years ended 31 December 2010, 2011 and 2012

	Note	2010 RMB (Fen)	2011 RMB (Fen)	2012 RMB (Fen)
Earnings per share from continuing and discontinued operations attributable to owners of the Company during the financial year				
Basic and diluted earnings/(loss) per share				
From continuing operations	15	(0.55)	(3.63)	0.28
From discontinued operations	15	0.54	0.27	0.07

The accompanying notes form an integral part of these Unaudited Pro Forma Consolidated Financial Statements.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

As at 31 December 2012

	Note	2012 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	16	169,918
Intangible assets		122
Investment properties		27,500
Goodwill	17	62,528
Investment in associated companies	19	100,996
Long-term loan receivable		150,000
Deferred income tax assets	20	606
		511,670
CURRENT ASSETS		
Properties for development	21	1,271,334
Prepayments, deposits and other receivables	22	106,030
Inventories		2,131
Trade receivables	23	16,055
Gross amounts due from customers for contract work		20,650
Due from associated companies		52,295
Due from related party		837
Due from non-controlling shareholders of subsidiaries	24	18,868
Cash and cash equivalents	25	94,880
		1,583,080
Assets of discontinued operations		21,913
		1,604,993
CURRENT LIABILITIES		
Trade payables	26	19,722
Other payables and accruals	27	145,588
Receipts in advance		71,402
Gross amounts due to customers for contract work		5,499
Due to non-controlling shareholders of subsidiaries	24	76,831
Current income tax liabilities		15,982
		335,024
Liabilities of discontinued operations		4,607
		339,631
NET CURRENT ASSETS		1,265,362
TOTAL ASSETS LESS CURRENT LIABILITIES		1,777,032

The accompanying notes form an integral part of these Unaudited Pro Forma Consolidated Financial Statements.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP
As at 31 December 2012

	Note	2012 RMB'000
NON-CURRENT LIABILITIES		
Deferred income tax liabilities	20	165,335
Long-term loan payables	28	448,436
Borrowings	29	112,174
		725,945
NET ASSETS		1,051,087
EQUITY		
Equity attributable to owners of the Company		
Share capital	30	219,943
Reserves		650,860
Accumulated losses		(180,670)
		690,133
Non-controlling interests		360,954
TOTAL EQUITY		1,051,087

The accompanying notes form an integral part of these Unaudited Pro Forma Consolidated Financial Statements.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ENLARGED GROUP

For the financial year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital	Share premium	Contributed surplus	Capital reserve	Statutory reserves*	Capital redemption reserve	Currency translation reserve	Share options reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2012												
Beginning of financial year	219,943	45,312	565,589	7,764	16,836	8,324	(2,503)	5,406	(184,384)	682,287	71,100	753,387
Pro forma comprehensive income for the financial year	–	–	–	–	–	–	209	–	3,024	3,233	25,642	28,875
Payment of dividends	–	–	–	–	–	–	–	–	–	–	(1,823)	(1,823)
Transfer	–	–	–	–	1,874	–	–	–	(1,874)	–	–	–
Recognition of share-based payments	–	–	–	–	–	–	–	2,049	–	2,049	–	2,049
Pro forma effects arising from different basis of preparation of the Unaudited Pro Forma Consolidated Statement of Financial Position	–	–	–	–	–	–	–	–	2,564	2,564	266,035	268,599
End of financial year	219,943	45,312	565,589	7,764	18,710	8,324	(2,294)	7,455	(180,670)	690,133	360,954	1,051,087

* As stipulated by the relevant laws and regulations for foreign investment enterprises in PRC, the PRC subsidiaries of the Enlarged Group are required to provide for statutory surplus reserve fund and voluntary contribution of enterprise expansion fund. Appropriations to such reserve funds are made out of a total of 10.5% of net profit after tax of the statutory financial statements of the PRC subsidiaries and the amount and allocation basis are decided by their respective board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied to convert into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation. The appropriations to the statutory surplus reserve fund and enterprise expansion fund are reflected in the statutory reserves under shareholders' funds.

The accompanying notes form an integral part of these Unaudited Pro Forma Consolidated Financial Statements.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT CASH FLOWS OF THE ENLARGED GROUP

For the financial year ended 31 December 2012

	Note	2012 RMB'000
Cash flows from operating activities		
Profit before income tax		42,638
Adjustments for:		
- Amortisation of intangible assets		1,593
- Depreciation of property, plant and equipment		6,425
- Interest expenses		2,420
- Interest income		(15,617)
- Employee share option expense		2,049
- Gain on disposal of property, plant and equipment		(41)
- Fair value gain on investment properties		(4,600)
- Share of losses of associated companies		913
		35,780
Changes in working capital		
- Properties for development		(23,363)
- Refundable deposits		10,000
- Prepayments, deposits and other receivables		3,445
- Gross amounts due from customers for contract work		(5,309)
- Trade receivables		(9,081)
- Inventories		(1,192)
- Due from related party		(320)
- Due from non-controlling shareholders		(82)
- Due to non-controlling shareholders		(177)
- Receipts in advance		(30,495)
- Gross amount due to customers for contract work		821
- Other payables and accruals		37,788
- Trade payables		(20,257)
Cash used in operations		(2,442)
PRC income tax paid		(10,589)
Net cash used in operating activities		(13,031)
Cash flows from investing activities		
Acquisition of a subsidiary	17	(417,410)
Increase of restricted bank balances pledged		7,626
Interest received		12,579
Payments for structured bank deposits		(20,000)
Proceeds on settlement of structured bank deposits		20,000
Purchases of property, plant and equipment		(37,820)
Proceeds from disposal of property, plant and equipment		41
Capital contributions to associated companies		(10,144)
Loans to non-related parties		(240,000)
Loans to associated companies		(7,120)
Purchases of intangible assets		(122)
Net cash used in investing activities		(692,370)

The accompanying notes form an integral part of these Unaudited Pro Forma Consolidated Financial Statements.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT CASH FLOWS OF THE ENLARGED GROUP

For the financial year ended 31 December 2012

	Note	2012 RMB'000
Cash flows from financing activities		
Interest and other finance costs paid		(2,319)
Loans from non-related parties		148,436
Proceeds from bank borrowings		330,000
Proceeds from issuance of ordinary shares to non-controlling interests		150
Dividends paid to non-controlling shareholders		(1,823)
Net cash generated from financing activities		474,444
Net decrease in cash and cash equivalents		(230,957)
Cash and cash equivalents		
Beginning of financial year		300,140
Effects on pro forma adjustments arising from the different basis of preparation of the pro forma consolidated statement of financial position and pro forma consolidated statement of comprehensive income		28,134
End of financial year	25	97,317

The accompanying notes form an integral part of these Unaudited Pro Forma Consolidated Financial Statements.

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

1. General information

The Company is an exempted company incorporated in Bermuda with limited liability under the Companies Act of Bermuda. The Company's shares are listed on the main board of the Singapore Exchange Securities Trading Limited (the "SGX-ST").

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business is in the PRC.

The Company is an investment holding company. The principal activities of its subsidiaries and associated companies are set out in Note 18 and Note 19 respectively to the Unaudited Pro Forma Consolidated Financial Statements.

2. Significant events

2.1 Proposed Acquisition

On 15 September 2012, the Company entered into a conditional share transfer agreement with China Resources and Transportation Group Limited ("CRTG") in relation to the acquisition of 55% of the issued and paid up share capital of Yichang Xinshougang Property Development Company Limited (宜昌新首钢房地产开发有限公司).

Further details of this Proposed Acquisition are set out in Section 2 of this Circular.

2.2 Assignment and capitalisation of shareholder's loan

Pursuant to the above share transfer agreement, 55% of a shareholder's loan of approximately RMB186,267,000 extended by XSG's shareholder to XSG (the 'shareholder's loan") is assigned to the Company. Subsequently on 2 April 2013, XSG increased its share capital by way of capitalisation the RMB100,000,000 of the shareholder's loan.

3. Basis of presentation of the Unaudited Pro Forma Consolidated Financial Statements

3.1 The Unaudited Pro Forma Consolidated Financial Statements of the Company and its subsidiaries (the "Enlarged Group") have been prepared for illustrative purposes only and are based on certain assumptions after making certain adjustments to show what: –

(a) the Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group for the financial years ended 31 December 2010, 2011 and 2012 would have been if the Proposed Acquisition had occurred on 1 January 2010;

(b) the Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as at 31 December 2012 would have been if the Proposed Acquisition had occurred on 31 December 2012; and

(c) the changes in equity, and cash flows of the Enlarged Group for the financial year ended 31 December 2012 would have been if the Proposed Acquisition had occurred on 1 January 2012.

3.2 The Unaudited Pro Forma Consolidated Financial Statements of the Enlarged Group, because of their nature, may not give a true picture of the Enlarged Group's actual financial position, results, changes in equity and cash flows.

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

3. Basis of presentation of the Unaudited Pro Forma Consolidated Financial Statements (Cont'd)

3.3 The Unaudited Pro Forma Consolidated Financial Statements of the Enlarged Group for the financial years ended 31 December 2010, 2011 and 2012 have been compiled based on the following:

(a) the Audited Consolidated Financial Statements of Yichang Xinshougang Property Development Company Limited for the financial years ended 31 December 2010, 2011 and 2012. These Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards and audited by Nexia TS Public Accounting Corporation, Public Accountants and Certified Public Accountants, in accordance with International Standards on Auditing;

(b) the Audited Consolidated Financial Statements of China International Holdings Limited and its subsidiaries (the "Group") for the financial years ended 31 December 2010 and 2011, which were prepared in accordance with International Financial Reporting Standards and audited by RSM Nelson Wheeler, Certified Public Accountants, in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants; and

(c) the Audited Consolidated Financial Statements of the Group for the financial year ended 31 December 2012, which is prepared in accordance with International Financial Reporting Standards and audited by Nexia TS Public Accounting Corporation, Public Accountants and Certified Public Accountants, in accordance with International Standards on Auditing.

The auditor's report on the financial statements described above do not contain any qualification.

3.4 The Unaudited Pro Forma Consolidated Financial Statements of the Enlarged Group presented for the financial years ended 31 December 2010, 2011 and 2012 have been prepared using acquisition method to account for the Proposed Acquisition as set out in IFRS 3 'business combination'. In accounting for the Proposed Acquisition of the Target Group, identifiable assets acquired and liabilities assumed in the acquisition are measured at their fair values, which are based on their fair values as at 31 December 2012. The Group recognises any non-controlling interests at the non-controlling interest's proportionate share of the identifiable net assets. The excess of the consideration and the amount of any non-controlling interests in the Target Group over the fair values of the identifiable net assets acquired is recorded as goodwill. As the actual goodwill or gain on bargain purchase will be determined at the completion of the Proposed Acquisition, the eventual amounts could be materially different from the amount derived based on the assumption used.

3. Basis of presentation of the Unaudited Pro Forma Consolidated Financial Statements (Cont'd)

3.5 The following key adjustments and assumptions were made for the preparation of the Unaudited Pro Forma Consolidated Financial Statements of the Enlarged Group.

(a) New debt facility amounting to RMB300,000,000 which shall be drawn down, as part of the consideration, on or after the completion date, is assumed to be drawn down on 31 December 2012. The interest expense is based on 7.68% per annum which is 20% above the current market rate. The balance of consideration is funded internally;

(b) The acquisition costs relating to the Proposed Acquisition are assumed to be RMB2,500,000;

(c) The additional cost of sales resulting from fair value adjustments may differ from the actual cost as at the actual date of completion of the Proposed Acquisition upon the full completion of a purchase price allocation exercise;

(d) The assignment of shareholder's loan upon completion of the Proposed Acquisition are assumed to be completed on 31 December 2012;

(e) The capitalisation of the shareholder's loan of RMB100,000,000 are assumed to be completed on 31 December 2012; and

(f) The additional cost incurred for land tax to be borned by Vendor upon completion of Proposed Acquisition.

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

4. Statement of adjustments

(a) Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2010

The following adjustments have been made in arriving at the Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2010:

	Per audited consolidated statement of comprehensive income of CIHL	Per audited consolidated statement of comprehensive income of XSG	Pro Forma Adjustments				Unaudited Pro Forma consolidated statement of comprehensive income
	2010	2010					2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		[A]	[B]	[C]	[D]	[E]	
Continuing operations							
Revenue	28,486	–	(17,392)	–	–	–	11,094
Cost of sales	(10,568)	–	5,477	–	–	–	(5,091)
Gross profit	17,918	–	(11,915)	–	–	–	6,003
Other income - net	41,248	95	(9)	–	–	–	41,334
Administrative expenses	(13,049)	(1,269)	15	(2,500)	–	–	(16,803)
Other operating expenses	(15,116)	–	1,774	–	–	–	(13,342)
Selling and distribution	–	(33)	–	–	–	–	(33)
Operating profit/(loss)	31,001	(1,207)	(10,135)	(2,500)	–	–	17,159
Finance costs	–	–	–	–	(23,040)		(23,040)
Share of losses of associated companies	(80)	–	–	–	–	–	(80)
Share of profits of jointly control entity	5,861	–	–	–	–	–	5,861
Profit/(loss) before income tax	36,782	(1,207)	(10,135)	(2,500)	(23,040)	–	(100)
Income tax expense	(6,697)	–	2,301	–	–	–	(4,396)
Profit/(loss) for the financial year from continuing operations	30,085	(1,207)	(7,834)	(2,500)	(23,040)	–	(4,496)

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

4. Statement of adjustments (Cont'd)

(a) Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2010 (Cont'd)

	Per audited consolidated statement of comprehensive income of CIHL	Per audited consolidated statement of comprehensive income of XSG	Pro Forma Adjustments				Unaudited Pro Forma consolidated statement of comprehensive income
	2010	2010					2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		[A]	[B]	[C]	[D]	[E]	
Discontinued operations							
Profit for the financial year from discontinued operations	–	–	7,834	–	–	–	7,834
Total comprehensive income/(loss), representing profit for the financial year	30,085	(1,207)	–	(2,500)	(23,040)	–	3,338
Total comprehensive income/(loss) for the financial year attributable to:							
Owners of the Company	26,122	(1,207)	–	(2,500)	(23,040)	543	(82)
Non-controlling interests	3,963	–	–	–	–	(543)	3,420
	30,085	(1,207)	–	(2,500)	(23,040)	–	3,338

Notes:

[A] Being adjustment to include the financial results of Yichang Xinshougang for the financial year ended 31 December 2010.

[B] Being reclassification the results of discontinued operations.

[C] Being adjustment to reflect the acquisition costs to be incurred in the financial year ended 31 December 2010.

[D] Being adjustment to reflect finance costs for loan from non-related party in relation to the proposed acquisition.

[E] Being adjustment to reflect the non-controlling interests portion of loss for the financial year ended 31 December 2010.

4. Statement of adjustments (Cont'd)

(b) Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2011

The following adjustments have been made in arriving at the Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2011:

		← Pro Forma Adjustments →			
	Per audited consolidated statement of comprehensive income of CIHL	**Per audited consolidated statement of comprehensive income of XSG**			**Unaudited Pro Forma consolidated statement of comprehensive income**
	2011	**2011**			**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
		[A]	**[B]**	**[C]**	
Continuing operations					
Revenue	76,814	–	–	–	76,814
Cost of sales	(39,344)	–	–	–	(39,344)
Gross profit	37,470	–	–	–	37,470
Other income - net	8,279	123	–	–	8,402
Administrative expenses	(12,148)	(993)	–	–	(13,141)
Other operating expenses	(19,544)	–	–	–	(19,544)
Selling and distribution	–	(11,019)	–	–	(11,019)
Operating profit/(loss)	14,057	(11,889)	–	–	2,168
Finance costs	–	–	(23,040)	–	(23,040)
Share of losses of associated companies	(701)	–	–	–	(701)
Profit/(loss) before income tax	13,356	(11,889)	(23,040)	–	(21,573)
Income tax expense	(6,392)	–	–	–	(6,392)
Profit/(loss) for the financial year from continuing operations	6,964	(11,889)	(23,040)	–	(27,965)
Discontinued operations					
Profit for the financial year from discontinued operations	3,862	–	–	–	3,862
Profit/(loss) for the year	10,826	(11,889)	(23,040)	–	(24,103)

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

4. Statement of adjustments (Cont'd)

(b) Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2011 (Cont'd)

	Per audited consolidated statement of comprehensive income of CIHL	← Pro Forma Adjustments →			Unaudited Pro Forma consolidated statement of comprehensive income
		Per audited consolidated statement of comprehensive income of XSG			
	2011	2011			2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		[A]	[B]	[C]	
Other comprehensive income/(loss):					
Exchange differences on translating foreign operations	(2,495)	–	–	–	(2,495)
Other comprehensive income/(loss) for the financial year, net of tax	(2,495)	–	–	–	(2,495)
Total comprehensive income for the financial year	8,331	(11,889)	(23,040)	–	(26,598)
Profit for the financial year attributable to:					
Owners of the Company	135	(11,889)	(23,040)	5,350	(29,444)
Non-controlling interests	10,691	–	–	(5,350)	5,341
	10,826	(11,889)	(23,040)	–	(24,103)
Total comprehensive income/(loss) for the financial year attributable to:					
Owners of the Company	(2,360)	(11,889)	(23,040)	5,350	(31,939)
Non-controlling interests	10,691	–	–	(5,350)	5,341
	8,331	(11,889)	(23,040)	–	(26,598)

Notes:

[A] Being adjustment to include the financial results of Yichang Xinshougang for the financial year ended 31 December 2011.

[B] Being adjustment to reflect finance costs for loan from non-related party in relation to the proposed acquisition.

[C] Being adjustment to reflect the non-controlling interests portion of profit for the financial year ended 31 December 2011.

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

4. Statement of adjustments (Cont'd)

(c) Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2012

The following adjustments have been made in arriving at the Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2012:

	Per audited consolidated statement of comprehensive income of CIHL	← Pro Forma Adjustments →				Unaudited Pro Forma consolidated statement of comprehensive income
		Per audited consolidated statement of comprehensive income of XSG				
	2012	2012				2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		[A]	[B]	[C]	[D]	
Continuing operations						
Revenue	57,899	171,429	–	–	–	229,328
Cost of sales	(22,603)	(116,680)	(5,094)	–	–	(144,377)
Gross profit	35,296	54,749	(5,094)	–	–	84,951
Other income - net	23,233	158	–	–	–	23,391
Administrative expenses	(14,277)	(1,747)	–	–	–	(16,024)
Other operating expenses	(17,652)	–	–	–	–	(17,652)
Selling and distribution expenses	–	(6,940)	–	–	–	(6,940)
Operating profit	26,600	46,220	(5,094)	–	–	67,726
Finance costs	(2,420)	–	–	(23,040)	–	(25,460)
Share of losses of associated companies	(913)	–	–	–	–	(913)
Profit before income tax	23,267	46,220	(5,094)	(23,040)	–	41,353
Income tax expense	(5,237)	(8,442)	–	–	–	(13,679)
Profit for the financial year from continuing operations	18,030	37,778	(5,094)	(23,040)	–	27,674
Discontinued operations						
Profit for the financial year from discontinued operations	992	–	–	–	–	992
Profit for the financial year	19,022	37,778	(5,094)	(23,040)	–	28,666

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

4. Statement of adjustments (Cont'd)

(c) Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2012 (Cont'd)

	Per audited consolidated statement of comprehensive income of CIHL	Pro Forma Adjustments				Unaudited Pro Forma consolidated statement of comprehensive income
		Per audited consolidated statement of comprehensive income of XSG				
	2012	2012				2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		[A]	[B]	[C]	[D]	
Other comprehensive income:						
Exchange differences on translating foreign operations	209	–	–	–	–	209
Other comprehensive income for the financial year, net of tax	209	–	–	–	–	209
Total comprehensive income for the financial year	19,231	37,778	(5,094)	(23,040)	–	28,875
Profit for the financial year attributable to:						
Owners of the Company	8,088	37,778	(5,094)	(23,040)	(14,708)	3,024
Non-controlling interests	10,934	–	–	–	14,708	25,642
	19,022	37,778	(5,094)	(23,040)	–	28,666
Total comprehensive income for the financial year attributable to:						
Owners of the Company	8,297	37,778	(5,094)	(23,040)	(14,708)	3,233
Non-controlling interests	10,934	–	–	–	14,708	25,642
	19,231	37,778	(5,094)	(23,040)	–	28,875

Notes:

[A] Being adjustment to include the financial results of Yichang Xinshougang for the financial year ended 31 December 2012.

[B] Being adjustment to reflect the uplift of the cost of sales to its fair value for the financial year ended 31 December 2012.

[C] Being adjustment to reflect finance costs for loan from non-related party in relation to the proposed acquisition.

[D] Being adjustment to reflect the non-controlling interests portion of profit for the financial year ended 31 December 2012.

4. Statement of adjustments (Cont'd)

(d) Unaudited Pro Forma Consolidated Statement of Financial Position as at 31 December 2012

The following adjustments have been made in arriving at the Unaudited Pro Forma Consolidated Statement of Financial Position as at 31 December 2012:

	Per audited consolidated statement of financial position of CIHL 2012 RMB'000	Per audited consolidated statement of financial position of XSG 2012 RMB'000 [A]	Pro Forma Adjustments CIHL's book RMB'000 [B]	XSG's book RMB'000 [C]	RMB'000 [D]	RMB'000 [E]	Unaudited Pro Forma consolidated statement of financial position 2012 RMB'000
NON-CURRENT ASSETS							
Property, plant and equipment	87,755	46,621	–	35,542	–	–	169,918
Intangible assets	122	–	–	–	–	–	122
Investment properties	27,500	–	–	–	–	–	27,500
Goodwill	20,303	–	–	–	–	42,225	62,528
Investment in subsidiaries	–	–	–	–	385,356	(385,356)	–
Investment in associated companies	100,996	–	–	–	–	–	100,996
Long-term loan receivable	150,000	–	–	–	–	–	150,000
Deferred income tax assets	606	–	–	–	–	–	606
	387,282	46,621	–	35,542	385,356	(343,131)	511,670
CURRENT ASSETS							
Properties for development	240,334	427,019	–	603,981	–	–	1,271,334
Refundable deposits	122,235	–	–	–	(122,235)	–	–
Prepayments, deposits and other receivables	101,105	4,925	–	–	–	–	106,030
Inventories	2,131	–	–	–	–	–	2,131
Trade receivables	5,004	11,051	–	–	–	–	16,055
Gross amounts due from customers for contract work	20,650	–	–	–	–	–	20,650
Due from associated companies	52,295	–	–	–	–	–	52,295
Due from related party	837	–	–	–	–	–	837
Due from non-controlling shareholders of subsidiaries	671	–	–	–	18,197	–	18,868
Cash and cash equivalents	74,567	51,578	(2,500)	–	(28,765)	–	94,880
	619,829	494,573	(2,500)	603,981	(132,803)	–	1,583,080
Assets of discontinued operations	21,913	–	–	–	–	–	21,913
	641,742	494,573	(2,500)	603,981	(132,803)	–	1,604,993

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

4. Statement of adjustments (Cont'd)

(d) Unaudited Pro Forma Consolidated Statement of Financial Position as at 31 December 2012 (Cont'd)

	Per audited consolidated statement of financial position of CIHL	Per audited consolidated statement of financial position of XSG	Pro Forma Adjustments: CIHL's book	XSG's book			Unaudited Pro Forma consolidated statement of financial position
	2012	2012					2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		[A]	[B]	[C]	[D]	[E]	
CURRENT LIABILITIES							
Trade payables	18,318	1,404	–	–	–	–	19,722
Other payables and accruals	9,720	135,868	–	–	–	–	145,588
Receipts in advance	16,621	54,781	–	–	–	–	71,402
Gross amounts due to customers for contract work	5,499	–	–	–	–	–	5,499
Due to non-controlling shareholders of subsidiaries	38,011	–	–	–	38,820	–	76,831
Due to intermediate holding corporation	–	186,267	–	–	(186,267)	–	–
Current income tax liabilities	9,514	6,468	–	–	–	–	15,982
	97,683	384,788	–	–	(147,447)	–	335,024
Liabilities of discontinued operations	4,607	–	–	–	–	–	4,607
	102,290	384,788	–	–	(147,447)	–	339,631
NET CURRENT ASSETS	539,452	109,785	(2,500)	603,981	14,644	–	1,265,362
TOTAL ASSETS LESS CURRENT LIABILITIES	926,734	156,406	(2,500)	639,523	400,000	(343,131)	1,777,032
NON-CURRENT LIABILITIES							
Deferred income tax liabilities	5,454	–	–	159,881	–	–	165,335
Long-term loan payables	148,436	–	–	–	300,000	–	448,436
Borrowings	–	112,174	–	–	–	–	112,174
	153,890	112,174	–	159,881	300,000	–	725,945
NET ASSETS	772,844	44,232	(2,500)	479,642	100,000	(343,131)	1,051,087

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

4. Statement of adjustments (Cont'd)

(d) Unaudited Pro Forma Consolidated Statement of Financial Position as at 31 December 2012 (Cont'd)

		Pro Forma Adjustments					
	Per audited consolidated statement of financial position of CIHL 2012 RMB'000	Per audited consolidated statement of financial position of XSG 2012 RMB'000	CIHL's book RMB'000	XSG's book RMB'000	RMB'000	RMB'000	Unaudited Pro Forma consolidated statement of financial position 2012 RMB'000
		[A]	[B]	[C]	[D]	[E]	
EQUITY							
Equity attributable to owners of the Company							
Share capital	219,943	20,000	–	–	100,000	(120,000)	219,943
Reserves	650,860	2,408	–	479,642	–	(482,050)	650,860
Accumulated losses	(178,170)	21,674	(2,500)	–	–	(21,674)	(180,670)
	692,633	44,082	(2,500)	479,642	100,000	(623,724)	690,133
Non-controlling interests	80,211	150	–	–	–	280,593	360,954
TOTAL EQUITY	772,844	44,232	(2,500)	479,642	100,000	(343,131)	1,051,087

Notes

[A] Being adjustment to include the financial results of Yichang Xinshougang as at 31 December 2012.

[B] Being adjustment to reflect the acquisition costs to be incurred in the financial year ended 31 December 2012.

[C] Being fair value adjustment of Yichang Xinshougang in accordance to IFRS3.

[D] Being adjustment to reflect the cost of investment of XSG and the assignment of a shareholder's loan.

[E] Being adjustment to reflect the effects of acquisition.

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

5. Summary of significant accounting policies

The significant accounting policies adopted by the Enlarged Group, which have been consistently applied in preparing the Pro Forma Consolidated Financial Statements set out in this report, are as follows:

5.1 Basis of preparation

The Unaudited Pro Forma Consolidated Financial Statements have been compiled from the financial statements stated in Note 3 and are based on the accounting policies to be adopted by the Enlarged Group. The significant accounting policies of the Enlarged Group, which are in conformity with International Financial Reporting Standards ("IFRS") and IFRIC interpretations, are set out below. The Unaudited Pro Forma Consolidated Financial Statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The Unaudited Pro Forma financial statements are presented in Renminbi ("RMB") and all values in the tables are rounded to the nearest thousand (RMB'000) as indicated.

The preparation of the Unaudited Pro Forma financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Enlarged Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 7 to the Unaudited Pro Forma Consolidated Financial Statements.

5.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Enlarged Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Enlarged Group controls another entity. The Enlarged Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the Enlarged Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Enlarged Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Enlarged Group. They are de-consolidated from the date that control ceases.

The Enlarged 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 Enlarged 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 Enlarged Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

5. Summary of significant accounting policies (Cont'd)

5.2 Consolidation (Cont'd)

(a) Subsidiaries (Cont'd)

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Enlarged 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 IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Enlarged Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Enlarged Group ceases to have control any retained interest in the entity is remeasured 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 Enlarged Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

5. Summary of significant accounting policies (Cont'd)

5.2 Consolidation (Cont'd)

(d) Associates

Associates are all entities over which the Enlarged 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 Enlarged Group's investment in associates includes goodwill identified on acquisition.

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 Enlarged Group's share of post-acquisition profit or loss is recognised in profit or loss, 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 Enlarged Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Enlarged Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Enlarged 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 Enlarged 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/(loss) of associated companies' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Enlarged Group and its associate are recognised in the Enlarged 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 Enlarged Group.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

(e) Related parties

A related party is a person or entity that is related to the Enlarged Group.

(A) A person or a close member of that person's family is related to the Enlarged Group if that person:

(i) has control or joint control over the Enlarged Group;

(ii) has significant influence over the Enlarged Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company

5. Summary of significant accounting policies (Cont'd)

5.2 Consolidation (Cont'd)

(e) Related parties (Cont'd)

(B) An entity is related to the Enlarged Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Enlarged Group or an entity related to the Enlarged Group. If the Enlarged Group is itself such a plan, the sponsoring employers are also related to the Enlarged Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

5.3 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are carried at cost less accumulated impairment losses in the Company's statement of financial position. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

5.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors who is responsible for allocating resources and assessing performance of the operating segments.

5.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Enlarged 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 'Renminbi' ("RMB"), which is the Enlarged Group's presentation currency and the Company's functional currency.

5. Summary of significant accounting policies (Cont'd)

5.5 Foreign currency translation (Cont'd)

(b) 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 profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other income/(losses)– net'.

Changes in the fair value of monetary 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 and liabilities 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.

(c) Group companies

The results and financial position of all the Enlarged 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each profit or loss 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 rate on 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.

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
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5. Summary of significant accounting policies (Cont'd)

5.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Enlarged Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Land is not depreciated. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over the estimated useful lives, as follows:

	Useful life
Buildings	20 years
Water plant and its ancillary facilities	20 years
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	5 years

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

Construction in progress represents water plant and its ancillary facilities under construction, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income/(losses) – net' in profit or loss.

5.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating-units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

5. Summary of significant accounting policies (Cont'd)

5.7 Intangible assets (Cont'd)

(a) Goodwill (Cont'd)

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Operating and toll collection rights of toll bridges and its ancillary facilities under the service concession arrangements

Service concession arrangements represent the rights by which the local government grants a contract for the respective operating and toll collection rights for Zouwei bridge and its ancillary facilities (the "Toll bridges and its ancillary facilities") for a period of 25 years from the date of commencement of its operation in February 1999. Upon expiration of the concession period, the Toll bridges and its ancillary facilities shall be transferred to the local government without compensation. The Toll bridges and its ancillary facilities under the service concession arrangements are stated at cost, i.e. the fair value of the consideration received or receivable in exchange for the services provided under the service concession arrangements, less accumulated amortisation and any impairment losses.

Subsequent expenditures are capitalised as an additional cost of service concession arrangements when the recognition criteria are satisfied. Other subsequent expenditures such as repairs and maintenance are charged to profit or loss in the period in which they are incurred.

Amortisation of service concession arrangements is calculated to write off their costs on a unit-of-usage basis whereby the amortisation is provided based on the share of traffic volume in a particular period over the projected total traffic volume throughout the periods for which the Enlarged Group is granted to operate those service concession arrangements.

It is the Enlarged Group's policy to review regularly the projected total traffic volume throughout the concession period of the service concession arrangements. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment will be made should there be a material change in the projected total traffic volume.

(c) Development of software

Costs directly attributable to the development of computer software are capitalised as intangible assets only when technical feasibility of the project is demonstrated, the Enlarged Group has an intention and ability to complete and use the software and the costs can be measured reliably. Such costs include purchases of materials and services and payroll-related costs of employees directly involved in the development project. Development costs are stated at cost less accumulated amortisation and accumulated impairment losses. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding 5 years.

5. Summary of significant accounting policies (Cont'd)

5.8 Investment properties

Investment properties are land and/or buildings that are held for long term rentals yields and/or for capital appreciation. Investment properties are measured initially at its cost including all direct costs attributable to the property.

Investment properties are initially recognised at cost and subsequently carried at fair value, determined annually by independent professional valuers on the highest-and-best use basis. Changes in fair value are recognised in profit or loss.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are recognised in profit or loss. The cost of maintenance, repairs and minor improvements is recognised in profit or loss when incurred.

On disposal of an investment property is the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

5.9 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held-for-sale and:

(a) represents a separate major line of business or geographical area of operations; or

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) is a subsidiary acquired exclusively with a view to resale.

5.10 Properties for development

Properties for development are those properties which are held with the intention of development and sale in the ordinary course of business. They are stated at the lower of cost plus, where appropriate, a portion of attributable profit, and estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of properties under development comprise specifically identified costs, including acquisition costs, development expenditure, borrowing costs and other related expenditure. Borrowing costs payable on loans funding a development property are also capitalised, on a specific identification basis, as part of the cost of the properties for development until the completion of development.

5. Summary of significant accounting policies (Cont'd)

5.11 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets 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 to sell 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.

5.12 Financial assets

(a) Classification

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

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 Enlarged Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

(b) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Enlarged 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 are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Enlarged Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

5.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

5. Summary of significant accounting policies (Cont'd)

5.14 Impairment of financial assets

Assets carried at amortised cost

The Enlarged 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 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 reorganisation, 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 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 profit or loss. If a loan 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 Enlarged 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 profit or loss.

5.15 Inventories

Inventories for construction contracts, comprising raw materials and consumables, are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. Net realisable value is determined by reference to the underlying specific contracts in progress in which the inventories will ultimately be used.

5. Summary of significant accounting policies (Cont'd)

5.16 Construction contracts

A construction contract is defined by IAS 11, 'Construction contracts', as a contract specifically negotiated for the construction of an assets.

When the outcome of a construction contract can be estimated reliably, and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Enlarged Group uses the 'percentage-of-completion method', to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the statement of financial position, the Enlarged Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

5.17 Operating leases

(i) *Where the Enlarged Group is the lessee*

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 to profit or loss on a straight-line basis over the period of the lease.

(ii) *Where the Enlarged Group is the lessor*

Leases of investment properties where the Enlarged Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Enlarged Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

5. Summary of significant accounting policies (Cont'd)

5.18 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection 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.

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

5.19 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value, less cash subject to restriction.

5.20 Share capital

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

5.21 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

5.22 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

5. Summary of significant accounting policies (Cont'd)

5.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

5.24 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries 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.

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; 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 end of the reporting period 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.

Deferred income tax is provided on temporary differences arising on 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 Enlarged Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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5. Summary of significant accounting policies (Cont'd)

5.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Enlarged Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

5.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes, and after eliminating sales within the Enlarged Group. The Enlarged Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Enlarged Group's activities, as described below. The Enlarged Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Toll income

Toll income is recognised on a cash receipt basis, net of any applicable revenue taxes and surcharges.

(ii) Water supply income

Water supply income is recognised based on water supplied during the financial year.

(iii) Revenue on sale of development properties held for sale

Revenue from sale of development properties held for sale in respect of sale and purchase agreements entered into prior to completion of construction is recognised when the properties are delivered to the buyers, such transfer generally occurs when the property units are completed and delivered to the purchasers. Revenue is recognised upon completion of construction.

(iv) Construction of water pipeline

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract; and revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable.

(v) Interest income

Interest income is recognised using the effective interest method.

5. Summary of significant accounting policies (Cont'd)

5.26 Revenue recognition (Cont'd)

(vi) Rental income

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

(vii) Land development construction contracts

Revenue from construction and upgrade services is recognised under the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for each contract. When the outcome of a construction and upgrade services cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable.

(viii) Dividend income

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

5.27 Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost less accumulated impairment losses.

Exploration and evaluation assets represent costs of acquiring exploration rights and the expenditures in the search for mineral resources on an area of interest basis. Costs incurred before the Enlarged Group has obtained the legal right to explore an area are recognised in profit or loss.

Exploration and evaluation assets are only recognised if the rights to the area of interest are current and either:

(a) the expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or

(b) activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise the economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

When an area of interest is abandoned or decided by the directors that it is not commercially viable, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of a financial period and its accumulated costs are written off to the extent that they will not be recoverable. Each potential or recognised area of interest is evaluated as and when management deems there are indications of significant change in the mineral reserves.

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

5. Summary of significant accounting policies (Cont'd)

5.27 Exploration and evaluation assets (Cont'd)

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrated, any previously recognised exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mine property and development assets (included in property, plant and equipment).

5.28 Employee benefits

(i) Pension obligations

The Enlarged Group is required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by the PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

Contributions to Mandatory Provident Fund, a defined contribution retirement scheme, as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as expenses in profit or loss as and when incurred.

Pension contributions are recognised as expenses in the period in which the related services are performed.

(ii) Bonus plans

The Enlarged Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(iii) Share-based payments

The Enlarged 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 Enlarged 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:

(a) including any market performance conditions (for example, an entity's share price);

(b) 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

(c) 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.

5. Summary of significant accounting policies (Cont'd)

5.28 Employee benefits (Cont'd)

(iii) Share-based payments (Cont'd)

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 Enlarged Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, 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 (nominal value) and share premium.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Enlarged Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Enlarged Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

5.29 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Enlarged 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.

5. Summary of significant accounting policies (Cont'd)

5.30 Events after the reporting date

Events after the reporting date that provide additional information about the Enlarged Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to the financial statements when material.

6. Financial risk management

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

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Enlarged Group. The management team then establishes the detailed policies such as risk identification and measurement and exposure limits.

(a) Market risk

(i) Foreign exchange risk

The Enlarged Group operates in Asia with dominant operations in PRC. The Enlarged Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are principally denominated in the Hong Kong dollar ("HKD") and the United States dollar ("USD"). The Enlarged Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Enlarged Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2012, if the HKD had weakened/strengthened by 10% against the RMB with all other variables held constant, profit for the financial year would have been RMB15,499,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated long-term borrowings.

At 31 December 2012, if the USD had weakened/strengthened by 10% against the RMB with all other variables held constant, profit for the financial year would have been RMB4,434,000 lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated loans to an associated company.

6. Financial risk management (Cont'd)

(a) Market risk (Cont'd)

(ii) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Enlarged Group's exposure to interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Enlarged Group on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates.

The following table sets out the carrying amounts as at 31 December 2012, by maturity or repricing, whichever is earlier, of the financial instruments of the Enlarged Group that are exposed to interest rate risk:

	Less than 1 year	**Between 1 and 5 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Financial assets			
Fixed rate			
Bank deposits	18,387	–	18,387
Other receivable	90,000	–	90,000
Loans to associated companies	52,295	–	52,295
Long-term loan receivable	–	150,000	150,000
	160,682	150,000	310,682
Floating rate			
Bank deposits	60,017	–	60,017
Financial liabilities			
Fixed rate			
Loan-term loan payables	–	448,436	448,436

The Enlarged Group is not exposed to changes in interest rates for fixed rate financial assets and financial liabilities, and the impact of the exposure to interest rate risk from financial assets at variable rate is not significant.

6. Financial risk management (Cont'd)

(b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Enlarged Group. The Enlarged Group conducts credit evaluations on borrowers and establishes an allowance for doubtful accounts based on estimates, factors surrounding the credit risks of specific borrower and any other relevant information.

The details of the Enlarged Group's exposure to credit risk in relation to the Enlarged Group's financial assets are described as follows:

(i) Due from related parties, non-controlling shareholders of subsidiaries and associated companies

When loans are granted to related companies, advance assessment is being made by the management on the recoverability of the loans, and whenever possible, security is required.

(ii) Trade receivables

It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Enlarged Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

For properties that are still under construction, the Enlarged Group provides guarantees to local government authority and certain financial institutions in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of the guarantee, the bank holding the mortgage may demand the Enlarged Group to repay the outstanding amount under the loan and any accrued interest thereon. Under such circumstances, the Enlarged Group is able to retain the customer's deposit and sell the property to recover any amounts paid by the Enlarged Group to the bank. Unless the selling price would drop by 30%, which is remote, the Enlarged Group would not be in a loss position in selling those properties out. In this regard, the directors of the Enlarged Group consider that the credit risk is significantly reduced (refer to Note 7(i) to the Unaudited Pro Forma Consolidated Financial Statements for more information).

The Enlarged Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in Note 34 to the Unaudited Pro Forma Consolidated Financial Statements.

6. Financial risk management (Cont'd)

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient funds to enable it to meet its contractual and financial obligations. At the end of the reporting period, assets held by the Enlarged Group for maintaining liquidity risk included cash and cash equivalents as disclosed in Note 25 to the Unaudited Pro Forma Consolidated Financial Statements.

To manage liquidity risk, the Enlarged Group monitors its net operating cash flow and maintains a level of cash and cash equivalents, deemed adequate by management for working capital purposes so as to mitigate the effectiveness of cash flows.

The table below analyses the Enlarged Group's financial liabilities into relevant maturity groupings based on the remaining period from the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 5 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
2012			
Trade and other payables	242,141	–	242,141
Borrowings	33,688	613,941	647,629
	275,829	613,941	889,770

(d) Capital risk

The Enlarged Group's objectives when managing capital are to safeguard the Enlarged Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Enlarged Group sets the amount of capital in proportion to risk. The Enlarged Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Enlarged Group may adjust the payment of dividends, issue new shares, repurchase shares, raise new debts, redeem existing debts or sell assets to reduce debts.

According to the Rule 723 of the Listing Manual of the SGX-ST, at least 10% of the Company's shares should be held in the hands of the public.

Apart from the above the Enlarged Group is not subject to any other externally imposed capital requirements.

(e) Fair values estimation

The carrying amounts of the Enlarged Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. 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 Enlarged 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.

In the process of applying the accounting policies, the directors have made a judgement that have the most significant effect on the amounts recognised in the financial statements apart from those involving estimations, are dealt with below.

(a) Valuation of investment properties

The Enlarged Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

The carrying amounts of the relevant investment properties as at 31 December 2012 was approximately RMB27,500,000.

(b) Taxation

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Impairment assessment for trade and other receivables and refundable deposits

The Enlarged Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of trade and other receivables and refundable deposits, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of uncollectible debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of trade and other receivables and allowance for impairment charge in the period in which such estimate has been changed.

If the net present values of estimated cash flows increase/decrease by 10% from management's estimates for all past due loans and receivables, the Enlarged Group's allowance for impairment will decrease/increase by RMB432,000.

The impairment of prepayments, deposits and other receivables for the financial year ended 31 December 2012 was approximately RMB2,538,000.

7. Critical accounting estimates and judgements (Cont'd)

(d) Estimated impairment of goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. The recoverable amount of goodwill and where applicable, cash-generating-units ("CGUs"), have been based on value-in-use calculations. These calculations require the use of estimates (Note 17(a)).

If the management's estimated growth rate used in the value-in-use calculation for the CGUs have been lowered by 1%, or estimated pre-tax discount rate applied to the discounted cash flows for this CGUs had been raised by 1%, the value-in-use calculation at 31 December 2012 would have decreased by RMB3,942,000 and RMB2,098,000 respectively.This decrease in the value-in-use would have no impact to the carrying amount of goodwill amounting to RMB20,303,000.

(e) Construction contracts

The Enlarged Group recognises contract revenue to the extent of contract costs incurred where it is probable those costs will be recoverable or based on the stage of completion method. The stage of completion is measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract.

Significant judgement is required in determining the stage of completion, the extent of the contract cost incurred, the estimated total contract revenue and contract cost, as well as the recoverability of the contracts. Total contract revenue also includes an estimation of the recoverable variation works that are recoverable from the customers. In making the judgement, the Enlarged Group evaluates by relying on past experience.

If the revenue on uncompleted contracts at the end of the reporting period has been higher/lower by 10% from management's estimates, the Enlarged Group's revenue would have been higher/lower by approximately RMB2,004,000.

If the contract costs of uncompleted contracts to be incurred had been higher/lower by 10% from management's estimates, the Enlarged Group's profit would have been lower/higher by approximately RMB338,000.

(f) Impairment of investment in associated companies

The Enlarged Group tests annually whether interests in associated companies have suffered any impairment based on both quantitative and qualitative criteria. Such assessments include various estimates and assumptions, the financial health, cashflow projection and future prospects of the respective associated companies. In assessing the recoverable amount of investments in associated companies, the entire carrying amount of the investment including goodwill is tested as a single asset.

7. Critical accounting estimates and judgements (Cont'd)

(f) Impairment of investment in associated companies (Cont'd)

At the end of each reporting period, the net carrying amount of interests in respective associated companies, comprising the net of the equity investments in associated companies, interest receivables from associated companies and due from/(to) associated companies, are as follows:-

	2012 RMB'000
Interests in Future Trillion Holdings Limited ("Future Trillion") and its subsidiary (the "Future Trillion Group")	106,563
Interests in LiuHe County YuKun Mining Co. Ltd. ("Liuhe") and its subsidiary (the "Liuhe Group")	49,288
	155,851

As at 31 December 2012, the recoverable amount of the Enlarged Group's interests in Future Trillion Group and the Liuhe Group of approximately RMB106,563,000 and RMB49,288,000 respectively is determined by reference to exploration and evaluation assets held by the associated companies. In determining whether there is an impairment of the exploration and evaluation assets in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources", the directors assessed whether any key impairment indicators which indicates that there is impairment on its exploration and evaluation assets including:

(i) The period for which the associated companies has the right to explore in the specific area has expired during the financial year or will expire in the near future, and is not expected to be renewed;

(ii) Substantive expenditure on further exploration for and evaluation of natural gas resources in the specific area is neither budgeted nor planned;

(iii) Exploration for and evaluation of natural gas and gold resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the associated companies has decided to discontinue such activities in the specific area;

(iv) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

As set out in Note 19 to the Unaudited Pro Forma Consolidated Financial Statements, the Enlarged Group has not identified any of these impairment indicators of the exploration and evaluation assets held by the associated companies.

7. Critical accounting estimates and judgements (Cont'd)

(g) Ownership of properties

In March 2006, CIHL (Tianjin) Water Development Company Limited ("Water Development") obtained approval from the local government agency, to authorise the use of the parcel of land directly associated with water plant and its ancillary facilities for the purpose of supplying gray water for a period of 50 years. As at 31 December 2012, the legal title for the use of the above captioned parcel of land was not transferred to Water Development. Notwithstanding the fact that the Enlarged Group has not obtained the relevant legal title of the land use rights, the directors consider that the Enlarged Group obtained the right to use through contractual arrangement with the local government agency, hence they expect the transfer of legal titles in future should have no major difficulties.

(h) Fair value of discontinued operations

The carrying amount of the intangible assets as at 31 December 2012 amounting to RMB17,690,000. As at the date of this report, management is still in negotiation with the local government on the compensation quantum. However, based on management's historical experience, the compensation is typically higher than or equal the cost of construction. Therefore, management is of the view that there is no impairment in intangible assets based on the historical trend of the compensation received from local government.

(i) Revenue recognition on sales of properties

The assessment of when an entity has transferred the significant risks and rewards of ownership to buyers requires the examination of the circumstances of the transaction. In most cases, the transfer of risks and rewards of ownership coincides with the date when the equitable interest in the property vests with the buyer upon release of the respective property to the buyer.

As disclosed in Note 34 to the Unaudited Pro Forma Consolidated Financial Statements, the Enlarged Group provided guarantees in respect of mortgage facilities granted by local government authority and certain financial institutions relating to the mortgage loans arranged for certain purchasers of the Enlarged Group's properties. These guarantees will normally be discharged upon issuance of the real estate ownership certificate which are generally be available within three months after the purchasers take possession of the relevant properties. In order to obtain mortgages, the purchasers would have settled no less than 30% of the total contract amount in accordance with related PRC regulations upon signing the sales contract. The directors of the Group are of the opinion that such settlements provide sufficient evidence of the purchasers' commitment to honour contractual obligation of the bank loans. Further, as disclosed in Note 6(b) to the Unaudited Pro Forma Consolidated Financial Statements, the credit risk of the Enlarged Group under the circumstance that a purchaser defaults on the payment of its mortgage during the term of the guarantee is very low.

7. Critical accounting estimates and judgements (Cont'd)

(j) Estimated net realisable value on properties under development for sale

In determining whether allowances should be made for the Enlarged Group's properties under development for sale, the Enlarged Group takes into consideration the current market environment and the estimated market value (i.e. the estimated selling price less estimated costs of selling expenses) less estimated costs to completion of the properties. An allowance is made if the estimated market value is less than the carrying amount. If the actual net realisable value on properties under development for sale is less than expected as a result of change in market condition and/or significant variation in the budgeted development cost, material provision for impairment losses may result. As at 31 December 2012, the carrying amount for the properties under development for sale is approximately RMB119,000,000 and the carrying amount for the properties under development is approximately RMB1,152,334,000.

8. Revenue

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Revenue from land development construction contracts	391	14,950	30
Revenue from water supply of gray water and construction of water pipeline	11,394	63,994	60,397
Revenue from development properties	–	–	181,598
	11,785	78,944	242,025
Less: PRC business tax and value added tax	(691)	(2,130)	(12,697)
	11,094	76,814	229,328

9. Other income - net

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Currency translation (loss)/gain, net	(621)	(2,648)	1,401
Fair value gain on investment properties	7,853	1,400	4,600
Gain on acquisition of a subsidiary	20,307	–	–
Gain on bargain purchase of a subsidiary	782	–	–
Gain on disposals of a subsidiary	3,911	–	–
(Loss)/gain on disposals of property, plant and equipment	(39)	33	35
Interest income from:			
- banks	6,195	6,966	2,039
- loans to non-related parties	–	–	11,447
- loans to associated companies	–	1,244	2,045
Rental income, net	1,211	994	996
Other	1,735	413	828
	41,334	8,402	23,391

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10. Finance costs

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Interest expenses on loans from non-related parties	23,040	23,040	25,460

11. Employee benefits expense

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Salaries, allowances and bonuses	6,041	10,696	11,301
Pension costs of defined contribution plans	1,328	2,868	2,819
Employee share option expense	2,369	2,516	2,049
Other staff welfare	32	59	53
	9,770	16,139	16,222

12. Income tax expense

Tax expense attributable to profit is made up of:

	2010 RMB'000	2011 RMB'000	2012 RMB'000
From continuing operations			
Profit for the financial year			
Current income tax – PRC enterprise income tax	3,685	3,688	14,432
Deferred income tax	2,014	3,055	2,264
	5,699	6,743	16,696
Under/(over) provision in prior financial years			
Current income tax – PRC enterprise income tax	139	66	(342)
Deferred income tax	(1,442)	(417)	(2,675)
	4,396	6,392	13,679
From discontinued operations			
Profit for the financial year			
Current income tax – PRC enterprise income tax	1,935	1,004	77
Deferred income tax	–	868	244
	1,935	1,872	321
Under/(over) provision in prior financial years			
Current income tax – PRC enterprise income tax	366	42	(28)
	2,301	1,914	293
Total income tax expense attributable to continuing and discontinued operations	6,697	8,306	13,972

Pursuant to relevant laws and regulations in PRC, the subsidiary, CCI Andi Bridges Co., Ltd. ("Zuowei") is entitled to a reduction from PRC enterprise income tax up to 2011. The tax rate applicable to Zuowei is 25% in 2012 (2011: 24% and 2010: 22%).

12. Income tax expense (Cont'd)

Pursuant to relevant laws and regulations in PRC, CIHL (Tianjin) Water Development Co., Ltd. ("Water Development") is exempted from PRC enterprise income tax for two years from its first profit-making year and thereafter are entitled to a 50% relief from PRC enterprise income tax for the following three years. Water Development was in its fifth profit-making year for the financial year ended 31 December 2012 and was therefore entitled to a 50% relief from PRC enterprise income tax for the financial year ended 31 December 2012. The tax rate applicable to Water Development for the financial year ended 31 December 2012 is 12.5% (2011 and 2010: 12.5%).

Pursuant to relevant laws and regulations in PRC, other subsidiaries in PRC are required to pay PRC enterprise income tax at a standard rate of 25% (2011 and 2010: 25%).

No provision for income tax of Hong Kong entities since there is no assessable profit for the financial year.

Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries, in which the Enlarged Group operates, based on existing legislation, interpretation and practices in respect thereof.

The tax on the Enlarged Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of the principal place of operation of the Enlarged Group as follows:

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Profit before income tax from			
- continuing operations	(100)	(21,573)	41,353
- discontinued operations (Note 14(c))	10,135	5,776	1,285
	10,035	(15,797)	42,638
Tax calculated at PRC income tax rate of 25% (2011: 24% and 2010: 22%)	2,208	(3,791)	10,660
- Associated companies results reported net of tax	18	172	228
- Income not subject to tax	(5,316)	(210)	(1,203)
- Expenses not deductible for tax purposes	4,872	4,555	4,017
- (Over)/under provision of income tax in prior years	505	108	(370)
- Tax losses for which no deferred income tax asset was recognised	5,053	8,456	7,942
- Tax relief	(643)	(737)	(3,878)
- Utilisation of previously unrecognised tax losses	–	(247)	(3,424)
Income tax expense	6,697	8,306	13,972

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Enlarged Group did not recognise deferred income tax assets of RMB7,3631,000 in respect of losses amounting to RMB30,818,000 that can be carried forward against future taxable income. The tax losses can be carried forward up to a period of 5 years.

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13. Profit before income tax

The Enlarged Group's profit before income tax is arrived at after charging/(crediting) the following:

	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Advertising expenses	10	8,617	4,976
Auditors' remuneration			
Fees on audit services paid/payable to:			
- auditor of the Company	767	868	878
- other auditors	129	43	358
Fees on non-audit services paid/payable to:			
- other auditors	–	139	–
	896	1,050	1,236
Cost of inventories consumed(1)	661	4,654	3,796
Cost of land development services rendered(1)	392	9,348	180
Cost of property development activities(1)	–	–	126,849
Depreciation of property, plant and equipment(2)	2,360	5,223	6,210
Employee benefit expense(3) (Note 11)	9,770	16,139	16,222
Gain on disposals of property, plant and equipment	39	(33)	(35)
Legal and professional fees	3.196	908	6,704
Operating lease rental payments	939	783	1,012
Water pipeline installation and construction costs(1)	3,071	19,788	12,464

(1) The amount was included in cost of sales.
(2) The amount of approximately RMB3,413,000 (2011: RMB3,178,000 and 2010: RMB795,000) was included in cost of sales.
(3) The amount of approximately RMB1,075,000 (2011: RMB907,000 and 2010: RMB172,000) was included in cost of sales.

14. Discontinued operations

CCI Andi Bridges Co., Ltd ("Andi"), a 60% owned subsidiary of the Company has been granted with a 25 years of concession rights on toll collection on 25 December 1998.

On 2 January 2013, the Company announced that Andi has been notified by Hebei Provincial Government to cease its toll charging operations effective from 31 December 2012.

As such, the assets and liabilities related to Andi except for the property, plant and equipment, which are not associated with the toll charging operations, are classified as discontinued operations on the statement of financial position, and the entire results from Andi are presented separately on the statement of comprehensive income as "Discontinued operations".

14. Discontinued operations (Cont'd)

The impact of the discontinued operations on the cash flows of the Enlarged Group is as follows:

	2011 RMB'000	2012 RMB'000
Operating cash inflows	6,905	4,387
Investing cash outflows	(178)	–
Financing cash outflows	(1,700)	(1,824)
Total cash inflows	5,027	2,563

(a) Details of the assets directly associated with discontinued operations are as follow:

	2012 RMB'000
Intangible assets	17,692
Prepayments, deposits and other receivables	159
Cash and bank balances (Note 25)	4,062
	21,913

(b) Details of the liabilities directly associated with discontinued operations are as follow:

	2012 RMB'000
Other payables and accruals	3,116
Advance income	22
Current income tax liabilities	77
Deferred income tax liabilities	1,392
	4,607

14. Discontinued operations (Cont'd)

(c) The results of the discontinued operations are as follows:

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Revenue	17,392	13,705	11,157
Cost of services provided	(5,477)	(5,615)	(5,258)
	11,915	8,090	5,899
Other income	9	64	116
Less:			
Other operating expenses	(1,774)	(2,356)	(4,719)
Finance costs	(15)	(22)	(11)
Profit before income tax (Note 12)	10,135	5,776	1,285
Income tax expense	(2,301)	(1,914)	(293)
Net profit	7,834	3,862	992

15. Earnings/(loss) per share

Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial year.

Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares assumed the deemed exercise of the share options outstanding during the reporting period have been issued at no consideration.

The share options are not potential dilutive ordinary shares since the exercise price of the share options was higher than the average market price of the Company's ordinary shares during the financial year ended 31 December 2012. Therefore, no shares were assumed to have been issued on the deemed exercise of the Company's outstanding share options during the financial year ended 31 December 2012.

15. Earnings/(loss) per share (Cont'd)

The calculation of basic and diluted earnings per share is based on the following:

	2010	2011	2012
(Loss)/profit attributable to owners of the Company (RMB'000)			
- continuing operations	(4,782)	(31,761)	2,429
- discontinued operations	4,700	2,317	595
	(82)	(29,444)	3,024
Weighted average number of ordinary shares in issue ('000)	873,194	874,604	874,604
Basic and diluted (loss)/earnings per share (RMB Fen)			
- continuing operations	(0.55)	(3.63)	0.28
- discontinued operations	0.54	0.27	0.07
	(0.01)	(3.36)	0.35

16. Property, plant and equipment

	Land and buildings	Water plant and its ancillary facilities	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2012	23,894	49,996	60	1,546	6,908	87,514	169,918

Depreciation charge of RMB339,000 has been capitalised and included in the development properties.

The Enlarged Group's land and buildings are located in PRC.

Water Development has obtained approval from the local government agency, for the use of the parcel of land directly associated with water plant and its ancillary facilities for the purpose of supplying gray water for a period of 50 years. No official land use rights certificate has been issued for the use of the relevant land.

Included in construction in progress is RMB73,000,000 in relation to construction of convention center under Yichang Xinshougang Property Development Company Limited.

17. Goodwill

	Note	2012 RMB'000
Acquisition of control – CIHL (Tianjin) Water Development Co., Ltd. ("Water Development")	(a)	20,303
Acquisition of subsidiary	(b)	42,225
		62,528

(a) Acquisition of control – Water Development

Goodwill arose from business combination is allocated to water supply service cash-generating-units ("CGUs") comprising Water Development at acquisition. CGUs are expected to benefit from that business combination.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value–in-use calculations are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Enlarged Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Enlarged Group prepares cash flow forecasts derived from the most recent financial budgets approved by the management with a growth rate of 43%. Discount rate of approximately 28.9% was used for the cash flow forecasts as at 31 December 2012.

If the management's estimated growth rate used in the value-in-use calculation for the CGUs have been lowered by 1%, or estimated pre-tax discount rate applied to the discounted cash flows for this CGUs had been raised by 1%, the value-in-use calculation at 31 December 2012 would have decreased by RMB3,942,000 and RMB2,098,000 respectively. This decrease in the value-in-use would have no impact to the carrying amount of goodwill amounting to RMB20,303,000.

17. Goodwill (Cont'd)

(b) Proposed Acquisition of Yichang Xinshougang Property Development Company Limited

The acquisition as set out in Note 3 to the Unaudited Pro Forma Consolidated Financial Statements at a consideration of RMB385,356,000, being initial consideration of RMB451,000,000 (HK$550,000,000) after setting off the pro forma adjustments of RMB65,644,000 is assumed to be occurred at 31 December 2012 for the purpose of pro forma consolidated statement of financial position. The recognised amounts of identifiable assets acquired and liabilities of the Target Group assumed at the date of acquisition and based on the assumptions in Note 3 to the Unaudited Pro Forma Consolidated Financial Statements are as follows:

	2012
	RMB'000
Property, plant and equipment	82,163
Properties for development	1,031,000
Current assets	67,554
Current liabilities	(284,788)
Non-current liabilities	(272,055)
Net assets acquired	623,874
Less: Non-controlling interests	(280,743)
Goodwill	42,225
Purchase consideration for the acquisition and loan assignments, as adjusted by pro forma adjustments	385,356
Less: deemed consideration	(385,356)
Less: cash and cash equivalent acquired	(50,096)
Effects on pro forma adjustments arising from the different basis of preparation of the pro forma consolidated statement of financial position and pro forma consolidated statement of comprehensive income	14,006
	(36,090)
Add: Consideration settled by bank borrowings	300,000
Consideration settled by cash	28,765
Refundable deposits	122,235
Transaction cost	2,500
Net cash outflow	417,410

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18. Investment in subsidiaries

Details of the subsidiaries are as follows:

Name of companies	Principal activities	Place of incorporation/ establishment	Issued and paid-up capital	Equity holding 2012
				%
Held by the Company				
Hebei Bridges Investments Limited ("HBIL")	Investment holding	Samoa	US$2,891,567	100
Tianjin Bridges Investments Limited ("TBIL")	Investment holding	Samoa	US$28,915,663	100
China Toll Bridges & Roads (S) Pte. Limited	Dormant	Singapore	US$9,780	100
China Infrastructure Management (Hong Kong) Limited	Provision of management services to the Enlarged Group	Hong Kong	HK$10,000	100
China (Tianjin) Water Resources Limited ("CTWRL")	Investment holding	Samoa	US$1	100
CIHL Development Limited ("CHIL Dev")	Investment holding	Samoa	US$1	100
Pinnacle China Ltd ("PCL")	Investment holding	British Virgin Islands	US$1	100
Held by HBIL				
CCI Andi Bridges Co., Ltd ("Zuowei")	Toll bridge operations and management	PRC	US$2,410,000	55
Held by TBIL				
CIH Haimen (Tianjin) Enterprise Limited ("Haimen")	Dormant	PRC	RMB48,000,000	75
Held by CTWRL				
CIHL (Tianjin) Water Development Co., Ltd. ("Water Development")	Construction of water pipeline and supply of gray water	PRC	RMB60,000,000	60

18. Investment in subsidiaries (Cont'd)

Name of companies	Principal activities	Place of incorporation/ establishment	Issued and paid-up capital	Equity holding 2012
				%
Held by CHIL Dev				
CIHL (Tianjin) City Development Limited ("XZCID")	Investment holding and property investment	PRC	RMB50,000,000	100
Held by XZCID				
Tianjin CIHL Xinzhong Real Estate Development Co., Limited. ("XZPD")	Property development	PRC	RMB30,000,000	100
Beijing Shiji Longquan Real Estate Development Co., Limited ("SJLQ")	Provision of engineering and land leveling service for preliminary land development projects	PRC	RMB10,000,000	95
Yichang Xinshougang Property Development Company limited ("XSG")	Property development and asset management	PRC	RMB120,000,000	55
Held by XSG				
宜昌中翔物业管理有限公司	Real estate management	PRC	RMB500,000	38.5

19. Investment in associated companies

	Note	2012 RMB'000
Investment in Future Trillion Group	(i)	58,867
Investment in Liuhe Group	(ii)	42,129
		100,996

19. Investment in associated companies

(i) Details of Future Trillion Group are as follows:

Name of companies	Principal activities	Place of incorporation /registration	Issued and paid up capital	Equity holding 2012
				%
Future Trillion Holdings Limited ("FT")	Investment holding	British Virgin Islands	US$3,055	34.53
Held by FT				
MKS Limited	Provision for natural gas exploration	Independent State of Papua New Guinea	Kina7,257,000	28.35

(ii) Details of Liuhe Group are as follows:

Name of companies	Principal activities	Place of incorporation/ registration	Issued and paid up capital	Equity holding 2012
			RMB'000	%
LiuHe County YuKun Mining Co. Ltd. ("Liuhe") ("柳河县钰坤矿业有限公司")	Provision for gold exploration	PRC	RMB64,000	19.9
Held by Liuhe				
LiuHe County AiPuLei Mining Co. Ltd. ("Aipulei") ("柳河县爱普勒矿业有限公司")	Provision for gold exploration	PRC	RMB500	19.9

20. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The analysis of deferred income tax assets and liabilities is as follows:

	2012 RMB'000
To be recovered/settled within one year	
Deferred income tax assets	606
Deferred income tax liabilities	(165,335)
Deferred income tax liabilities - net	(164,729)

The balances in deferred income tax assets and liabilities during the financial year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation RMB'000	Fair value gain on investment properties RMB'000	Fair value gain on development properties RMB'000	Others RMB'000	Total RMB'000
As at 31 December 2012	1,064	3,433	159,881	351	164,729

As at 31 December 2012, no deferred tax has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Enlarged Group's subsidiaries established in PRC as the Enlarged Group is in a position to control the timing of the remittance of earning and it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The deferred tax liabilities not recognised is approximately RMB5,462,000.

21. Properties for development

	2012 RMB'000
Properties held for sale	119,000
Properties under development	1,152,334
Total development properties	1,271,334

21. Properties for development (Cont'd)

(a) Property development project in Yichang City, PRC

Borrowing costs of RMB8,058,000 (2011: RMB10,391,000 and 2010: RMB7,645,000) were capitalised during the respective financial years. A capitalisation rate of 6.15% to 6.65% per annum was used, representing the borrowing costs of the loans used to finance the projects.

Details of property development project in Yichang City, PRC as at 31 December 2012 are as follow:

Location	Title	Approximate site area (sq. m)	Main usage
Meiziya Village, Xiaoxita, Yiling District, Yichang City, Hubei Province, PRC	The property is subject to a right to use of land till (i) 28 December 2046 for commercial, tourism and convention purpose and; (ii) 28 December 2076 for residential purpose	454,090	Residential
		40,920	Commercial
		92,716	Hotel and international convention centre
		587,726	

(b) Property development project in Tianjin City, PRC

In August 2010, the Enlarged Group acquired the land use rights of a parcel of land located in Tianjin, PRC, for property development through public auction at a consideration of RMB200,000,000. As at 31 December 2012, the property development project was under preliminary design stage and no substantial construction works have been commenced subsequent to the end of the reporting period.

Other details of the property development project are as follows:-

Gross site areas	:	121,778.90m^2
Expected completion date	:	Before June 2016
Effective Group interest	:	100%

22. Prepayments, deposits and other receivables

	Note	2012 RMB'000
Deposits	(a)	3,129
Prepayments	(b)	6,073
Other receivables	(c)	99,366
		108,568
Less: Impairment loss on other receivables		(2,538)
		106,030

The prepayments, deposits and other receivables are mainly denominated in Renminbi.

22. Prepayments, deposits and other receivables (Cont'd)

Note

(a) The Enlarged Group's deposits as at 31 December 2012 include the cash deposited in local government authority of RMB676,000 as guarantee deposits for the mortgage loan facilities granted by the banks to the purchasers of the Enlarged Group's properties under development for sale. Such guarantee will only be released after the loan has been settled or issuance of the real estate ownership certificate to the purchaser, whichever is earlier.

(b) The Enlarged Group's prepayments as at 31 December 2012 include the prepaid value-added taxes of RMB1,611,000.

(c) The Enlarged Group's other receivables as at 31 December 2012 include balance due from a local government agency of approximately RMB2,338,000. The Enlarged Group has entered into a contractual arrangement with the local government agency for reimbursement of payments for the upgrade of Haimen bridge in 2008. Pursuant to the contractual arrangement, the balance was overdue and the management has assessed the recoverability of the outstanding balance and full impairment on the outstanding balance was recognised for the financial year ended 31 December 2011.

The Enlarged Group's other receivables as at 31 December 2012 include an amount of RMB90,000,000 receivable from a local government agency in relation to an agreement entered into on 31 July 2012, on a cost-plus project management fee and the cost of project financing basis. The Re-development Centre is a PRC governmental agency under the District Government of Men Tou Gou, Beijing, and is responsible for the residential relocation development projects in Men Tou Gou District. The Project is situated in an area approximately 32,300 square meters in Men Tou Gou District. The Enlarged Group will be responsible for the provision of project financing, site preparation and the construction of 119,500 square meters of relocation housing on the site. The project is funded entirely from internal sources of the Enlarged Group. This amount is unsecured, interest bearing at 6.15% per annum and is repayable in 2013. The fair value of this amount approximates its carrying amounts.

23. Trade receivables

The Enlarged Group offers 0 to 30 days credit terms to customers for water supply service. The Enlarged Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

The trade receivables of the Enlarged Group mainly comprise of outstanding balance due from financial institutions in relation to the release of customers' borrowing of mortgage loans.

The aging analysis of trade receivables, based on the invoice date is as follows:

	2012
	RMB'000
0 to 30 days	11,733
More than 30 days	4,322
	16,055

As at 31 December 2012, trade receivables of RMB4,322,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. Management believes that the amounts that are past due are collectible, based on historic payment behaviour and credit-worthiness of the customers.

23. Trade receivables (Cont'd)

The aging analysis of these trade receivables is as follows:

	2012
	RMB'000
0 to 30 days	365
More than 30 days	3,957
	4,322

All trade receivables are denominated in Renminbi.

24. Due from/(to) related parties and non-controlling shareholders of subsidiaries

The amounts due from/(to) related parties and non-controlling shareholders of subsidiaries are unsecured, interest-free and have no fixed repayment terms. These amounts are denominated in Renminbi.

25. Cash and cash equivalents

	2012
	RMB'000
Cash at bank and on hand	93,255
Restricted bank balances	1,625
	94,880

Details of restricted bank balances are as follow:

	2012
	RMB'000
Restricted bank balances from pre-sale of properties under development for sale [a]	1,482
Restricted bank balances for a land development project [b]	143
	1,625

(a) Amounts represent cash deposited in certain banks as guarantee deposits for the mortgage loan facilities granted by the banks to the purchasers of the Enlarged Group's properties under development for sale. Such guarantee will only be released after the loan has been settled or issuance of the real estate ownership certificate to the purchaser, whichever is earlier.

(b) Restricted bank balances of approximately RMB143,000 was placed for securing the performance and fund utilisation for a land development project of the Enlarged Group.

25. Cash and cash equivalents (Cont'd)

The total cash and bank balances are denominated in the following currencies:

	2012
	RMB'000
Renminbi	90,187
Hong Kong Dollar	4,677
United States Dollar	4
Singapore Dollar	12
	94,880

Renminbi is not freely convertible to other currencies as such amounts were held by the subsidiaries located in PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Enlarged Group is permitted to exchange Renminbi for foreign currencies only through banks that are authorised to conduct foreign exchange business.

For the purpose of presenting the unaudited pro forma consolidated statement of cash flows, the cash and cash equivalents comprise the following:

	2012
	RMB'000
Cash and bank balances (as above)	94,880
Less: Restricted bank balances	(1,625)
Cash held by discontinued operations (Note 14(a))	4,062
Cash and cash equivalents per unaudited pro forma consolidated statement of cash flows	97,317

26. Trade payables

Trade payables generally have credit terms ranging from 0 to 30 days and are denominated in Renminbi.

27. Other payables and accruals

	2012
	RMB'000
Accruals	54,859
Other payables	90,729
	145,588

The other payables and accruals are mainly denominated in Renminbi.

27. Other payables and accruals (Cont'd)

Included in other payables to non-related parties as at the respective financial years is an amount of RMB50 million payable to Hubei Province Dafang Properties Development Company Limited ("Dafang Properties").

On 16 August 2010, the Enlarged Group entered into a joint development agreement with Dafang Properties for the development of several complex commercial and residential properties, including Yichang Three Gorges International Convention Centre ("Convention Centre"), the Three Gorges State Guest House ("Guest House") and the Three Gorges State Guest Garden Commercial Property (collectively the "Yichang Project").

According to the agreement, the Enlarged Group will provide a parcel of land located at Meiziya Village, Yiling District, Yichang City, Hubei Province and Dafang Properties will provide funding for all necessary development and construction costs for the property project except for borrowing costs for Convention Centre and Guest House which will be shared by the Enlarged Group and Dafang Properties on 65:35 basis. In FY2011, the Enlarged Group has contributed a parcel of land while Dafang Properties has provided funding for all necessary development and construction costs for the Yichang Project.

The Enlarged Group and Dafang Properties agreed to share the after tax distributable profit attributable to the Three Gorges State Guest Garden Commercial Property on a 60:40 basis, and share the economic benefit attributable to the Yichang Three Gorges International Convention Centre and the Three Georges State Guest House on a 65:35 basis.

On 26 November 2012, the said joint development agreement was terminated and the amount payable to Dafang Properties of RMB40 million were refunded subsequent to the financial year ended 31 December 2012.

The amount due to Dafang Properties is unsecured, interest-free and with no fixed term of repayment.

28. Long-term loan payables

	2012
	RMB'000
Loan from non-related parties	448,436

On 9 April 2012, the Enlarged Group entered into loan arrangements with two non-related parties to secure loans for amounts of HK$159,400,000 and HK$25,199,000 respectively. These loans are unsecured, interest-bearing at 2.25% per annum and will be repayable in full on 9 April 2015.

New debt facility amounting to RMB300,000,000 which shall be drawn down, as part of the consideration, on or after the completion date, is assumed to be drawn down on 31 December 2012. The interest expense is based on 7.68% per annum which is 20% above the current market rate.

28. Long-term loan payables (Cont'd)

The carrying amounts and fair value of the long-term loan payables is as follows:

	2012	
	Carrying amount	Fair value
	RMB'000	RMB'000
Loan from non-related parties	448,436	443,468

The fair values are determined from the cash flow analysis, discounted at annual market borrowing rate of 6.15% of an equivalent instrument at the end of the reporting period which management expects to be available to the Enlarged Group.

29. Borrowings

	2012
	RMB'000
Non-current – secured	
Bank borrowings	112,174

Bank borrowings are secured by a pledged deposit (Note 25).

At the end of the reporting period, the fair values of non-current borrowings approximate their carrying amounts.

The fair values are determined from the cash flow analysis, discounted at annual market borrowing rates of an equivalent instrument at the end of the reporting period which management expect to be available to the Enlarged Group as follows:

	2012
	%
Bank borrowings	6.15 – 6.65

30. Share capital

(a) Ordinary shares

	2012
	S$'000
Authorised:	
20,000,000,000 ordinary shares of S$0.05 each	1,000,000

	Number of shares '000	Amount RMB'000
Issued and fully paid:		
Ordinary shares of S$0.05 each		
As at 31 December 2012	874,604	219,943

(b) Share options

Details of the specific categories of options are pursuant to CIHL Share Options Scheme adopted on 10 May 2004 (the "2004 Scheme") granted as follows:-

Date of grant	Vesting period	Exercise period	Exercise price
			S$
25 March 2006	40% of 4,500,000 options to be vested on 25 March 2007	25 March 2007 to 24 March 2011	0.05
	30% of 4,500,000 options to be vested on 25 March 2008	25 March 2008 to 24 March 2011	0.05
	30% of 4,500,000 options to be vested on 25 March 2009	25 March 2009 to 24 March 2011	0.05
6 August 2008	40% of 4,500,000 options to be vested on 6 August 2009	6 August 2009 to 5 August 2013	0.07
	30% of 4,500,000 options to be vested on 6 August 2010	6 August 2010 to 5 August 2013	0.07
	30% of 4,500,000 options to be vested on 6 August 2011	6 August 2011 to 5 August 2013	0.07

Under the 2004 Scheme, if the share options remain unexercised after a period of 5 years from the date of grant, the share options expire. Share options are forfeited if the employee leaves the Enlarged Group before the share options vest. Share options previously vested would be lapsed one year after if the employee leaves the Enlarged Group, unless the remuneration committee otherwise approved.

The 2004 Scheme was terminated on 2 August 2009 and the outstanding share options granted under the 2004 Scheme remains valid until their respective expiration date.

30. Share capital (Cont'd)

(b) Share options (Cont'd)

On 8 March 2010, the Enlarged Group adopted another CIHL Share Options Scheme (the "2010 Scheme") and details of the specific categories of share options granted under the 2010 Scheme are as follows:

Date of grant	Vesting period	Exercise period	Exercise price
			S$
8 March 2010	50% of 20,000,000 options to be vested on 8 March 2011	8 March 2011 to 7 March 2015	0.075
	50% of 20,000,000 options to be vested on 8 March 2012	8 March 2012 to 7 March 2015	0.075
17 May 2010	50% of 3,000,000 options to be vested on 17 May 2011	17 May 2011 to 16 May 2015	0.087
	50% of 3,000,000 options to be vested on 17 May 2012	17 May 2012 to 16 May 2015	0.087
19 July 2010	50% of 1,500,000 options to be vested on 19 July 2011	19 July 2011 to 18 July 2015	0.079
	50% of 1,500,000 options to be vested on 19 July 2012	19 July 2012 to 18 July 2015	0.079
2 June 2011	50% of 24,500,000 options to be vested on 2 June 2012	2 June 2012 to 1 June 2016	0.052
	50% of 24,500,000 options to be vested on 2 June 2013	2 June 2013 to 1 June 2016	0.052

Under the 2010 Scheme, if the share options remain unexercised after a period of 5 years from the date of grant, the share options expire. Share options are forfeited if the employee leaves the Enlarged Group before the share options vest. Share options previously vested would be lapsed immediately after if the employee leaves the Enlarged Group, unless the remuneration committee otherwise approved.

	2012	
	Number of share options	Weighted average exercise price
	'000	S$
Outstanding at the beginning of financial year	52,000	0.0645
Granted during the financial year	–	–
Outstanding at the end of financial year	52,000	0.0645
Exercisable at the end of financial year	39,750	0.0684

30. Share capital (Cont'd)

(b) Share options (Cont'd)

At the end of the reporting period, the outstanding share options have a weighted average remaining contractual life of 2.7 years and the exercise prices range from S$0.052 to S$0.087. The share-based payments to directors and executives recognised in profit or loss for the financial year ended 31 December 2012 was approximately RMB2,049,000.

These fair values were calculated using the Binomial model. The inputs into the model are as follows:

	2012
Share price	S$0.052
Exercise price	S$0.052
Expected volatility	65.80%
Expected life	5 years
Risk free rates	1.02%
Expected dividend yield	4.22%
Exercise Multiple	2.2 and 2.8 times
Employee exit rate	0% and 13%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on the Enlarged Group's best estimate, for the effects of non transferability, excise restriction and behavioral considerations.

31. Reserves

(a) The amounts of the Enlarged Group's reserves and the movements therein are presented in the unaudited pro forma consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share premium

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premium payable on repurchase of shares.

31. Reserves (Cont'd)

(b) Nature and purpose of reserves (Cont'd)

(ii) Contributed surplus

The contributed surplus of the Company and the Enlarged Group represents the balance of the amount of credit arising from the capital reduction pursuant to a special resolution passed on 10 May 2004 for the reduction of issued and paid-up share capital of the Company from S$0.20 to S$0.05 on each of the 751,987,750 issued and paid-up shares.

(iii) Share options reserve

The fair value of the actual or estimated number of unexercised share options granted to employees of the Enlarged Group recognised in accordance with the accounting policy adopted for share-based payments as set out in Note 5.28(iii) to the Unaudited Pro Forma Consolidated Financial Statements.

(iv) Capital redemption reserve

Capital redemption reserve arises from the reduction of the nominal value of the issued share capital of the Company upon the cancellation of the repurchased shares.

32. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Enlarged Group and related parties at terms agreed between the parties:

(a) Sales and purchases of goods and services

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Related parties			
- Cash received on behalf of the Enlarged Group	44,153	49,479	4,991
- Rental and other operating expenses reimbursed/ reimbursable	265	256	316
- Consultancy service fee paid	(300)	(1,300)	–
- Interest income received	781	–	–
- Acquisition of a subsidiary	(9,500)	–	–
Associated companies			
- Interest income received/receivable	–	1,244	2,045

Other related parties comprise mainly companies which are controlled or significantly influenced by the Enlarged Group's key management personnel and their close family members.

32. Related party transactions (Cont'd)

(b) Key management personnel compensation

Key management personnel compensation is as follows:

	2010	**2011**	**2012**
	RMB'000	**RMB'000**	**RMB'000**
Directors' fees	1,800	1,800	1,800
Salaries, allowances and bonuses	2,132	2,867	2,909
Pension costs of defined contribution plans	7	10	11
Share option expense	1,990	2,506	1,925
	5,929	7,183	6,645

The amounts above comprise directors' remuneration of the Company of RMB5,857,000 (2011: RMB6,358,000 and 2010: RMB5,663,000).

33. Segment information

The Enlarged Group has four reportable segments as follows:

Toll collection	-	Toll income of toll bridges
Water supply services	-	Construction of water pipeline and supply of gray water
Land development	-	Provision of engineering and land leveling service for preliminary land development projects
Property development	-	Development and sale of properties

The Enlarged Group's reportable segments are strategic business units that offer different products and services.

The accounting policies of the operating segments are the same as those set out in Note 5 to the Unaudited Pro Forma Consolidated Financial Statements.

33. Segment information (Cont'd)

	Continuing operations				Discontinued operations	
	Water supply services	Land development	Property development	All other segments	Toll collection	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial year ended 31 December 2010						
Revenue	10,703	391	–	–	17,392	28,486
Segment results	6,003	–	–	–	11,915	17,918
Other income - net	–	–	95	41,239	9	41,343
Administrative expenses	(4)	–	(1,269)	(15,530)	(15)	(16,818)
Other operating expenses	(3,224)	(3,823)	–	(6,295)	(1,774)	(15,116)
Selling and distribution expenses	–	–	(33)	–	–	(33)
Operating profit						27,294
Finance costs	–	–	–	(23,040)	–	(23,040)
Share of losses of associated companies	–	–	–	(80)	–	(80)
Share of profits of a jointly controlled entity	–	–	–	5,861	–	5,861
Income tax expense	(1,863)	–	–	(2,533)	(2,301)	(6,697)
Profit for the financial year						3,338
Depreciation and amortisation	(795)	–	(9)	(1,560)	(1,648)	(4,012)
Share option expense	–	–	–	(2,369)	–	(2,369)

33. Segment information (Cont'd)

	Continuing operations				Discontinued operations	
	Water supply services	Land development	Property development	All other segments	Toll collection	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial year ended 31 December 2011						
Revenue	61,920	14,894	–	–	13,705	90,519
Segment results	31,924	5,546	–	–	8,090	45,560
Interest income	946	77	280	6,906	60	8,269
Rental income	–	–	–	995	–	995
Other income	36	–	–	410	4	450
Administrative expenses	(6)	–	(993)	(12,142)	–	(13,141)
Other operating expenses	(3,765)	(3,335)	(449)	(9,457)	(2,356)	(19,362)
Selling and distribution expenses	–	–	(11,019)	–	–	(11,019)
Fair value gain on investment properties	–	–	–	1,400	–	1,400
Currency translation loss	–	–	–	(2,648)	–	(2,648)
Allowance for impairment of other receivables	–	–	–	(2,538)	–	(2,538)
Operating profit						7,966
Finance costs	–	–	–	(23,040)	(22)	(23,062)
Share of losses of associated companies	–	–	–	(701)	–	(701)
Income tax expense	(3,367)	(572)	–	(2,453)	(1,914)	(8,306)
Loss for the financial year						(24,103)
Depreciation and amortisation	(3,352)	(361)	(21)	(1,489)	(1,596)	(6,819)
Share option expense	–	–	–	(2,516)	–	(2,516)

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

33. Segment information (Cont'd)

	Continuing operations				Discontinued operations	
	Water supply services RMB'000	Land development RMB'000	Property development RMB'000	All other segments RMB'000	Toll collection RMB'000	Total RMB'000
Financial year ended 31 December 2012						
Revenue	57,869	30	171,429	–	11,157	240,485
Segment results	35,446	(150)	49,655	–	5,899	90,850
Interest income	571	1,860	187	12,973	86	15,677
Rental income	–	–	–	1,017	–	1,017
Other income	29	35	–	718	30	812
Administrative expenses	–	–	(1,747)	(14,277)	–	(16,024)
Other operating expenses	(5,019)	(4,130)	–	(8,503)	(4,719)	(22,371)
Selling and distributions expenses	–	–	(6,940)	–	–	(6,940)
Fair value gain on investment properties	–	–	–	4,600	–	4,600
Currency translation gain	–	–	–	1,401	–	1,401
Operating profit						69,022
Finance costs	(6)	–	–	(25,454)	(11)	(25,471)
Share of losses of associated companies	–	–	–	(913)	–	(913)
Income tax (expense)/ credit	(4,473)	572	(8,442)	(1,336)	(293)	(13,972)
Profit for the financial year						28,666
Depreciation and amortisation	(3,968)	(235)	(549)	(1,673)	(1,593)	(8,018)
Share option expense	–	–	–	(2,049)	–	(2,049)

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

33. Segment information (Cont'd)

	← Continuing operations →				Discontinued operations	
	Water supply services	Land development	Property development	All other segments	Toll collection	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2012						
Total assets	123,989	113,935	1,440,442	416,384	21,913	2,116,663
Total assets includes:						
Property, plant and equipment	57,046	192	82,515	30,165	–	169,918
Intangible assets	122	–	–	–	17,692	17,814
Goodwill	20,303	–	–	42,225	–	62,528
Investment properties	–	–	–	27,500	–	27,500
Investment in associated companies	–	–	–	100,996	–	100,996
Long-term loan receivable	–	–	–	150,000	–	150,000
Deferred income tax assets	585	–	–	21	–	606
Inventories and properties for development	2,131	–	1,271,334	–	–	1,273,465
Gross amounts due from customers for contract work	5,283	15,367	–	–	–	20,650
Trade receivables	5,004	–	11,051	–	–	16,055
Prepayments, deposits and other receivables	917	95,499	4,936	4,678	159	106,189
Due from associated companies	–	–	–	52,295	–	52,295
Due from related party	–	–	–	837	–	837
Due from non-controlling shareholders of subsidiaries	–	500	18,197	171	–	18,868
Cash and cash equivalents	32,598	2,377	52,409	7,496	4,062	98,942
Total assets						2,116,663
Addition to non-current assets	5,565	–	4,871	18,572	–	29,008

33. Segment information (Cont'd)

	Continuing operations				Discontinued operations	
	Water supply services	Land development	Property development	All other segments	Toll collection	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2012						
Total liabilities	40,347	3,977	509,696	506,949	4,607	1,065,576
Total liabilities includes:						
Trade payables	14,877	3,441	1,404	–	–	19,722
Other payables and accruals	986	536	136,168	7,898	3,116	148,704
Gross amounts due to customers for contract work	5,499	–	–	–	–	5,499
Receipts in advance	16,621	–	54,781	–	22	71,424
Due to non-controlling shareholders of subsidiaries	–	–	38,820	38,011	–	76,831
Current income tax liabilities	2,364	–	6,468	7,150	77	16,059
Deferred income tax liabilities	–	–	159,881	5,454	1,392	166,727
Long-term loan payables and borrowings	–	–	112,174	448,436	–	560,610
Total liabilities						1,065,576

	Revenue			Non-current assets
Geographical information	2010	2011	2012	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Hong Kong	–	–	–	27
PRC except Hong Kong	28,486	90,519	240,485	451,631
Overseas	–	–	–	59,406
	28,486	90,519	240,485	511,064

In presenting the geographical information, revenue is based on the locations of the customers.

33. Segment information (Cont'd)

Revenue from major customers:

For the financial year ended 31 December 2012, revenue from two major customers contributed to the Enlarged Group's revenue of approximately RMB7,990,000 and RMB6,109,000 respectively were included in water supply services segment.

For the financial year ended 31 December 2011, revenue from two major customers contributed to the Enlarged Group's revenue of approximately RMB28,189,000 and RMB14,950,000 respectively were included in water supply service segment and land development segment respectively.

For the financial year ended 31 December 2010, revenue from a major customer contributed to the Enlarged Group's revenue of approximately RMB3,669,000 was included in water supply services segment.

34. Contingent liabilities

	2010 RMB'000	2011 RMB'000	2012 RMB'000
Guarantees in respect of mortgage facilities for certain purchasers	–	27,664	69,763

The Enlarged Group was in cooperation with local government authority and certain financial institutions arranged mortgage loan facility for its purchasers of property and provided guarantees to secure obligations of such purchasers for repayments. As at 31 December 2012, the outstanding guarantees amounted to RMB69,763,000 (2011: RMB27,664,000 and 2010: Nil). Such guarantees will be discharged upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within three months after the purchasers take possession of the relevant property; and (ii) the satisfaction of relevant mortgage loan by purchasers.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Enlarged Group is responsible to repay the outstanding mortgage principals together with any accrued interest and penalty owed by the defaulted purchasers to the banks, and the Enlarged Group is entitled to take over the legal title and possession of the related properties. The Enlarged Group's guarantee starts from the dates the mortgagees grant the mortgage loans. No provision has been made for the guarantees as the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty in case of any default in payments.

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2010, 2011 and 2012

35. Capital commitments

The Enlarged Group's capital commitments at the end of the reporting period are as follows:

	2012
	RMB'000
Capital expenditure contracted but not provided for in the financial statements in respect of:	
- Additions of construction in progress – water pipelines and its ancillary facilities	747
- Computer software	326
- Investment on properties under development for sale [(a)]	185,523
	186,596

(a) Pursuant to a Contract for the Grant of State-owned Land Use Rights No. Yichang City Yiling District Yi Zeng Guo Rang (He) Zi (2006) Di 438 Hao dated 29 December 2006 (hereinafter referred to as the "Contract") made between the Land Resource Bureau of Yichang City Yiling District and Yichang Xinshougang, it was agreed that the total investment for the development would be approximately RMB650,000,000. Up to 31 December 2012, the total investment in the property development was RMB464,477,000.

36. Lease commitments

(a) Operating lease commitments – where the Enlarged Group is a lessee

The Enlarged Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	RMB'000
At 31 December 2012	1,031

Operating lease payments represent rentals payable by the Enlarged Group for certain of its administrative office. Leases are negotiated for an average term of 2 years and rentals are fixed over the lease terms and do not include contingent rentals.

(b) Operating lease commitments – where the Enlarged Group is a lessor

The Enlarged Group sublets premises to non-related parties under non-cancellable operating leases. The lessees are required to pay absolute fixed annual increase to the lease payments.

The future minimum lease receivables under non-cancellable operating leases contracted for at the end of the reporting period but not recognised as receivables, are as follows:

	2012
	RMB'000
At 31 December 2012	1,319

37. Event after the reporting period

On 4 January 2013, a subsidiary of the Enlarged Group, CHIL (Tianjin) City Development Limited acquired additional 5% equity interest of Beijing Shiji Longquan Real Estate Development Co., Limited from an existing non-controlling shareholder, thereby making it a wholly-owned subsidiary.

38. New or revised accounting standards and interpretations

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Enlarged Group's accounting periods beginning on or after 1 January 2013 or later periods and which the Enlarged Group has not early adopted:

- Amendment to IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 July 2012)
- Amendment to IAS 19 – Employee Benefits (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2013)
- Amendment to IFRSs 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013)
- Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013)
  - IFRS 1 – First time adoption
  - IAS 1 – Presentation of Financial Statements
  - IAS 19 – Employee Benefits
  - IAS 16 – Property, Plant and Equipment
  - IAS 32 – Financial Instruments: Presentation
  - IAS 34 – Interim Financial Reporting
- IFRS 10 – Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 12 – Disclosure of Interest in Other Entities (effective for annual period beginning on or after 1 January 2013)
- IFRS 13 – Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)
- IAS 27 (revised 2011) – Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- IAS 28 (revised 2011) – Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013)
- IFRIC 20 – Stripping cost in the production phase of a surface mine (effective for annual periods beginning on or after 1 January 2013)
- Amendment to IAS 32 – Financial Instruments: Presentation (effective for annual periods beginning on or after 1 January 2014)
- IFRS 9 – Financial Instruments (effective for annual periods beginning on or after 1 January 2015)

39. Authorisation of unaudited pro forma consolidated financial statements

The unaudited pro forma consolidated financial statements were approved and authorised for issue by the Board of Directors on 24 July 2013.

The information set out in this Appendix E is a reproduction of selected financial information extracted from the annual report of the Company for FY2012, and was not specifically prepared for inclusion in this Circular.

Independent Auditor's Report

To the members of China International Holdings Limited
(Incorporated in Bermuda with Limited Liability)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of China International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 25 to 91, which comprise the consolidated statement of financial position of the Group and statement of financial position of the Company as at 31 December 2012, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRSs"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012, and of the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Other Matters

The audited financial statements for the financial year ended 31 December 2011 were reported on by an independent auditor other than Nexia TS Public Accounting Corporation. The independent auditor's report dated 28 March 2012 issued by the predecessor independent auditor on the financial statements for the financial year ended 31 December 2011 was unqualified.

Nexia TS Public Accounting Corporation
Public Accountants and Certified Public Accountants

Director-in-charge: Philip Tan Jing Choon
Appointed since financial year ended 31 December 2012

Singapore
28 March 2013

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Continuing operations			
Revenue	5	57,899	76,814
Cost of services provided		(22,603)	(39,344)
Gross profit		35,296	37,470
Other income - net	6	23,233	8,279
Administrative expenses		(14,277)	(12,148)
Other operating expenses		(17,652)	(19,544)
Operating profit		26,600	14,057
Finance costs	7	(2,420)	–
Share of losses of associated companies	18(a)	(913)	(701)
Profit before income tax		23,267	13,356
Income tax expense	9	(5,237)	(6,392)
Profit for the financial year from continuing operations		18,030	6,964
Discontinued operations			
Profit for the financial year from discontinued operations	11	992	3,862
Profit for the financial year		19,022	10,826
Other comprehensive income/(loss):			
Exchange differences on translating foreign operations		209	(2,495)
Other comprehensive income/(loss) for the financial year, net of tax		209	(2,495)
Total comprehensive income for the financial year		19,231	8,331
Profit for the financial year attributable to:			
Owners of the Company		8,088	135
Non-controlling interests		10,934	10,691
		19,022	10,826
Total comprehensive income/(loss) for the financial year attributable to:			
Owners of the Company		8,297	(2,360)
Non-controlling interests		10,934	10,691
		19,231	8,331

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2012

	Note	RMB (Fen)	RMB (Fen)
Earnings per share from continuing and discontinued operations attributable to owners of the Company during the financial year			
Basic and diluted earnings/(loss) per share			
From continuing operations	12	0.86	(0.25)
From discontinued operations	12	0.07	0.27

The accompanying notes form an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2012

	Note	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	87,755	80,757	–	–
Intangible assets	14	122	19,285	–	–
Investment properties	15	27,500	22,900	–	–
Goodwill	16	20,303	20,303	–	–
Investment in subsidiaries	17	–	–	220,049	220,049
Investment in associated companies	18(a)	100,996	97,025	–	–
Long-term loan receivable	19	150,000	–	–	–
Deferred income tax assets	20	606	519	–	–
		387,282	240,789	220,049	220,049
CURRENT ASSETS					
Properties for development	21	240,334	235,207	–	–
Refundable deposits	22	122,235	10,000	122,235	–
Prepayments, deposits and other receivables	23	101,105	7,180	376	293
Inventories	24	2,131	939	–	–
Trade receivables	25	5,004	6,974	–	–
Gross amounts due from customers for contract work	26	20,650	15,341	–	–
Due from associated companies	18(b)	52,295	45,175	–	–
Due from related party	27	837	517	–	–
Due from subsidiaries	17	–	–	413,632	504,194
Due from non-controlling shareholders of subsidiaries	27	671	589	–	–
Cash and cash equivalents	28	74,567	308,603	*	*
		619,829	630,525	536,243	504,487
Assets of discontinued operations	11(a)	21,913	–	–	–
		641,742	630,525	536,243	504,487
CURRENT LIABILITIES					
Trade payables	29	18,318	11,980	–	–
Other payables and accruals	30	9,720	19,737	2,358	2,140
Receipts in advance	26	16,621	18,440	–	–
Gross amounts due to customers for contract work	26	5,499	4,678	–	–
Due to subsidiaries	17	–	–	166,637	128,712
Due to associated companies	18(b)	–	5,469	–	–
Current income tax liabilities		9,514	12,509	–	–
Due to non-controlling shareholders of subsidiaries	27	38,011	38,188	–	–
		97,683	111,001	168,995	130,852
Liabilities of discontinued operations	11(b)	4,607	–	–	–
		102,290	111,001	168,995	130,852
NET CURRENT ASSETS		539,452	519,524	367,248	373,635
TOTAL ASSETS LESS CURRENT LIABILITIES		926,734	760,313	587,297	593,684

**Less than RMB1,000*

The accompanying notes form an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2012

	Note	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
NON-CURRENT LIABILITIES					
Deferred income tax liabilities	20	5,454	6,926	–	–
Long-term loan payables	31	148,436	–	–	–
		153,890	6,926	–	–
NET ASSETS		772,844	753,387	587,297	593,684
EQUITY					
Equity attributable to owners of the Company					
Share capital	32(a)	219,943	219,943	219,943	219,943
Reserves	33(a)	650,860	646,728	627,159	625,110
Accumulated losses		(178,170)	(184,384)	(259,805)	(251,369)
		692,633	682,287	587,297	593,684
Non-controlling interests		80,211	71,100	–	–
TOTAL EQUITY		772,844	753,387	587,297	593,684

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Profit before income tax		24,552	19,132
Adjustments for:			
- Amortisation of intangible assets	14	1,593	1,596
- Depreciation of property, plant and equipment	10	5,876	5,202
- Interest expenses	7	2,420	–
- Interest income		(15,519)	(8,146)
- Employee share option expense		2,049	2,516
- Gain on disposal of property, plant and equipment		(41)	(33)
- Gain on fair value gain on investment properties	6	(4,600)	(1,400)
- Share of losses of associated companies		913	701
- Allowance for impairment of prepayments, deposits and other receivables		–	2,538
		17,243	22,106
Changes in working capital			
- Properties for development		(5,003)	(24,978)
- Refundable deposits		10,000	–
- Prepayments, deposits and other receivables		(1,046)	(769)
- Gross amounts due from customers for contract work		(5,309)	(14,840)
- Trade receivables		1,970	(4,694)
- Inventories		(1,192)	233
- Due from related party		(320)	(249)
- Due from non-controlling shareholders		(82)	(89)
- Due to non-controlling shareholders		(177)	8
- Receipts in advance		(1,797)	7,112
- Gross amount due to customers for contract work		821	(11,325)
- Other payables and accruals		1,378	(4,210)
- Trade payables		6,338	9,164
Cash generated from/(used in) operations		22,824	(22,531)
PRC income tax paid		(8,615)	(2,241)
Net cash generated from/(used in) operating activities		14,209	(24,772)
Cash flows from investing activities			
Increase/(decrease) of restricted bank balances pledged		8,320	(8,320)
Interest received		12,481	4,353
Payments for structured bank deposits		(20,000)	(290,000)
Proceeds on settlement of structured bank deposits		20,000	292,036
Payments for deposit of acquisition of a subsidiary		(122,235)	–
Purchases of property, plant and equipment		(21,378)	(9,019)
Proceeds from disposal of property, plant and equipment		41	33
Acquisition of associated companies		–	(32,000)
Capital contributions to associated companies		(10,144)	(22,808)
Loans to non-related parties		(240,000)	–
Loans to a non-controlling shareholder		–	(540)
Loans to associated companies		(7,120)	(44,748)
Purchases of intangible assets		(122)	–
Net cash used in investing activities		(380,157)	(111,013)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Cash flows from financing activities			
Interest and other finance costs paid		(2,319)	–
Loans from non-related parties		148,436	–
Dividends paid to owners of the Company		–	(15,758)
Dividends paid to non-controlling shareholders		(1,823)	(3,319)
Net cash generated from/(used in) financing activities		144,294	(19,077)
Net decrease in cash and cash equivalents		(221,654)	(154,862)
Cash and cash equivalents			
Beginning of financial year		300,140	455,002
End of financial year	28	78,486	300,140

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserves* RMB'000	Capital redemption reserve RMB'000	Currency translation reserve RMB'000	Share options reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non–controlling interests RMB'000	Total equity RMB'000
2012												
Beginning of financial year	219,943	45,312	565,589	7,764	16,836	8,324	(2,503)	5,406	(184,384)	682,287	71,100	753,387
Total comprehensive income for the financial year	–	–	–	–	–	–	209	–	8,088	8,297	10,934	19,231
Payment of dividends	–	–	–	–	–	–	–	–	–	–	(1,823)	(1,823)
Transfer	–	–	–	–	1,874	–	–	–	(1,874)	–	–	–
Recognition of share-based payments	–	–	–	–	–	–	–	2,049	–	2,049	–	2,049
End of financial year	219,943	45,312	565,589	7,764	18,710	8,324	(2,294)	7,455	(178,170)	692,633	80,211	772,844
2011												
Beginning of financial year	219,943	45,312	565,589	7,764	14,732	8,324	(8)	2,890	(166,657)	697,889	63,728	761,617
Total comprehensive (loss)/ income for the financial year	–	–	–	–	–	–	(2,495)	–	135	(2,360)	10,691	8,331
Payment of dividends	–	–	–	–	–	–	–	–	(15,758)	(15,758)	(3,319)	(19,077)
Transfer	–	–	–	–	2,104	–	–	–	(2,104)	–	–	–
Recognition of share-based payments	–	–	–	–	–	–	–	2,516	–	2,516	–	2,516
End of financial year	219,943	45,312	565,589	7,764	16,836	8,324	(2,503)	5,406	(184,384)	682,287	71,100	753,387

* As stipulated by the relevant laws and regulations for foreign investment enterprises in PRC, the PRC subsidiaries of the Group are required to provide for statutory surplus reserve fund and voluntary contribution of enterprise expansion fund. Appropriations to such reserve funds are made out of a total of 10.5% of net profit after tax of the statutory financial statements of the PRC subsidiaries and the amount and allocation basis are decided by their respective board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied to convert into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation. The appropriations to the statutory surplus reserve fund and enterprise expansion fund are reflected in the statutory reserves under shareholders' funds.

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2012

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

The Company is listed on the main board of the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The Company is an exempted company incorporated in Bermuda with limited liability under the Companies Act of Bermuda.

The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business is in the People's Republic of China (the "PRC").

The principal activities of the Company are those of investment holding company. The principal activities of its subsidiaries and associated companies are disclosed in Note 17 and Note 18 respectively to the financial statements.

The toll collection business segment was discontinued during the financial year (Note 11).

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.

2.1 Basis of preparation

The consolidated financial statements of the Group and the statement of financial position of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties at fair value.

The financial statements are presented in Renminbi ("RMB") and all values in the tables are rounded to the nearest thousand (RMB'000) as indicated.

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

Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

(b) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

2. Summary of significant accounting policies (Cont'd)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

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 IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. Summary of significant accounting policies (Cont'd)

2.2 Consolidation (Cont'd)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured 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. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities 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 investment in associates includes goodwill identified on acquisition.

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 profit or loss, 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/(loss) of associated companies' in profit or loss.

2. Summary of significant accounting policies (Cont'd)

2.2 Consolidation (Cont'd)

(d) Associates (Cont'd)

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.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

(e) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. Summary of significant accounting policies (Cont'd)

2.3 Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are carried at cost less accumulated impairment losses in the Company's statement of financial position. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors who is responsible for allocating resources and assessing performance of the operating segments.

2.5 Foreign currency translation

(a) 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 'Renminbi' ("RMB"), which is the Group's presentation currency and the Company's functional currency.

(b) 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 profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other income/(losses)– net'.

Changes in the fair value of monetary 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 and liabilities 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.

(c) 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

2. Summary of significant accounting policies (Cont'd)

2.5 Foreign currency translation (Cont'd)

(c) Group companies (Cont'd)

(ii) income and expenses for each profit or loss 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 rate on 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.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Land is not depreciated. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over the estimated useful lives, as follows:

	Useful life
Buildings	20 years
Water plant and its ancillary facilities	20 years
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	5 years

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

Construction in progress represents water plant and its ancillary facilities under construction, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income/(losses) – net' in profit or loss.

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. Summary of significant accounting policies (Cont'd)

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating-units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Operating and toll collection rights of toll bridges and its ancillary facilities under the service concession arrangements

Service concession arrangements represent the rights by which the local government grants a contract for the respective operating and toll collection rights for Zouwei bridge and its ancillary facilities (the "Toll bridges and its ancillary facilities") for a period of 25 years from the date of commencement of its operation in February 1999. Upon expiration of the concession period, the Toll bridges and its ancillary facilities shall be transferred to the local government without compensation. The Toll bridges and its ancillary facilities under the service concession arrangements are stated at cost, i.e. the fair value of the consideration received or receivable in exchange for the services provided under the service concession arrangements, less accumulated amortisation and any impairment losses.

Subsequent expenditures are capitalised as an additional cost of service concession arrangements when the recognition criteria are satisfied. Other subsequent expenditures such as repairs and maintenance are charged to profit or loss in the period in which they are incurred.

Amortisation of service concession arrangements is calculated to write off their costs on a unit-of-usage basis whereby the amortisation is provided based on the share of traffic volume in a particular period over the projected total traffic volume throughout the periods for which the Group is granted to operate those service concession arrangements.

It is the Group's policy to review regularly the projected total traffic volume throughout the concession period of the service concession arrangements. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment will be made should there be a material change in the projected total traffic volume.

2. Summary of significant accounting policies (Cont'd)

2.7 Intangible assets (Cont'd)

(c) Development of software

Costs directly attributable to the development of computer software are capitalised as intangible assets only when technical feasibility of the project is demonstrated, the Group has an intention and ability to complete and use the software and the costs can be measured reliably. Such costs include purchases of materials and services and payroll-related costs of employees directly involved in the development project. Development costs are stated at cost less accumulated amortisation and accumulated impairment losses. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding 5 years.

2.8 Investment properties

Investment properties are land and/or buildings that are held for long term rentals yields and/or for capital appreciation. Investment properties are measured initially at its cost including all direct costs attributable to the property.

Investment properties are initially recognised at cost and subsequently carried at fair value, determined annually by independent professional valuers on the highest-and-best use basis. Changes in fair value are recognised in profit or loss.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are recognised in profit or loss. The cost of maintenance, repairs and minor improvements is recognised in profit or loss when incurred.

On disposal of an investment property is the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

2.9 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held-for-sale and:

(a) represents a separate major line of business or geographical area of operations; or

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) is a subsidiary acquired exclusively with a view to resale

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. Summary of significant accounting policies (Cont'd)

2.10 Properties for development

Development properties are those properties which are held with the intention of development and sale in the ordinary course of business. They are stated at the lower of cost plus, where appropriate, a portion of attributable profit, and estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of properties under development comprise specifically identified costs, including acquisition costs, development expenditure, borrowing costs and other related expenditure. Borrowing costs payable on loans funding a development property are also capitalised, on a specific identification basis, as part of the cost of the development property until the completion of development.

2.11 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets 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 to sell 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.

2.12 Financial assets

(a) Classification

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

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 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

(b) Recognition and measurement

Regular 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 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. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. Summary of significant accounting policies (Cont'd)

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.14 Impairment of financial assets

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 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 reorganisation, 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 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 profit or loss. If a loan 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 profit or loss.

2.15 Inventories

Inventories for construction contracts, comprising raw materials and consumables, are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. Net realisable value is determined by reference to the underlying specific contracts in progress in which the inventories will ultimately be used.

2.16 Construction contracts

A construction contract is defined by IAS 11, 'Construction contracts', as a contract specifically negotiated for the construction of an assets.

When the outcome of a construction contract can be estimated reliably, and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. Summary of significant accounting policies (Cont'd)

2.16 Construction contracts (Cont'd)

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage-of-completion method', to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the statement of financial position, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

2.17 Operating leases

(i) Where the Group is the lessee

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 to profit or loss on a straight-line basis over the period of the lease.

(ii) Where the Group is the lessor

Leases of investment properties where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

2.18 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection 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.

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

2.19 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value, less cash subject to restriction.

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. Summary of significant accounting policies (Cont'd)

2.20 Share capital

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

2.21 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.22 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.24 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries 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.

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. Summary of significant accounting policies (Cont'd)

2.24 Current and deferred income tax (Cont'd)

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; 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 end of the reporting period 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.

Deferred income tax is provided on temporary differences arising on 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.

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 same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.25 Dividend distribution

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

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes, and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) *Toll income*

Toll income is recognised on a cash receipt basis, net of any applicable revenue taxes and surcharges.

(ii) *Water supply income*

Water supply income is recognised based on water supplied during the financial year.

2. Summary of significant accounting policies (Cont'd)

2.26 Revenue recognition (Cont'd)

(iii) Construction of water pipeline

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract; and revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable.

(iv) Interest income

Interest income is recognised using the effective interest method.

(v) Rental income

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

(vi) Land development construction contracts

Revenue from construction and upgrade services is recognised under the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for each contract. When the outcome of a construction and upgrade services cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable.

(vii) Dividend income

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

2.27 Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost less accumulated impairment losses.

Exploration and evaluation assets represent costs of acquiring exploration rights and the expenditures in the search for mineral resources on an area of interest basis. Costs incurred before the Group has obtained the legal right to explore an area are recognised in profit or loss.

Exploration and evaluation assets are only recognised if the rights to the area of interest are current and either:

(a) the expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or

(b) activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise the economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. Summary of significant accounting policies (Cont'd)

2.27 Exploration and evaluation assets (Cont'd)

When an area of interest is abandoned or decided by the directors that it is not commercially viable, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of a financial period and its accumulated costs are written off to the extent that they will not be recoverable. Each potential or recognised area of interest is evaluated as and when management deems there are indications of significant change in the mineral reserves.

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrated, any previously recognised exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mine property and development assets (included in property, plant and equipment).

2.28 Employee benefits

(i) Pension obligations

The Group is required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by the PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

Contributions to Mandatory Provident Fund, a defined contribution retirement scheme, as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as expenses in profit or loss as and when incurred.

Pension contributions are recognised as expenses in the period in which the related services are performed.

(ii) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(iii) Share-based payments

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:

(a) including any market performance conditions (for example, an entity's share price);

(b) 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

2. Summary of significant accounting policies (Cont'd)

2.28 Employee benefits (Cont'd)

(iii) Share-based payments (Cont'd)

(c) 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-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, 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 (nominal value) and share premium.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.29 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.

Notes to the Financial Statements

For the financial year ended 31 December 2012

2. Summary of significant accounting policies (Cont'd)

2.30 Events after the reporting date

Events after the reporting date that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Financial risk management

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

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The management team then establishes the detailed policies such as risk identification and measurement and exposure limits.

(a) Market risk

(i) Foreign exchange risk

The Group operates in Asia with dominant operations in PRC. The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are principally denominated in the Hong Kong dollar ("HKD") and the United States dollar ("USD"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2012, if the HKD had weakened/strengthened by 10% against the RMB with all other variables held constant, profit for the financial year would have been RMB15,499,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated long-term borrowings. The impact for 2011 is negligible.

At 31 December 2012, if the USD had weakened/strengthened by 10% (2011: 10%) against the RMB with all other variables held constant, profit for the financial year would have been RMB4,434,000 (2011: RMB3,285,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated loans to an associated company.

3. Financial risk management (Cont'd)

(a) Market risk (Cont'd)

(ii) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates.

The following table sets out the carrying amounts as at 31 December, by maturity or repricing, whichever is earlier, of the financial instruments of the Group that are exposed to interest rate risk:

	Less than 1 year RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
2012			
Financial assets			
Fixed rate			
Bank deposits	18,387	–	18,387
Other receivable	90,000	–	90,000
Loans to associated companies	52,295	–	52,295
Long-term loan receivable	–	150,000	150,000
	160,682	150,000	310,682
Floating rate			
Bank deposits	60,017	–	60,017
Financial liabilities			
Fixed rate			
Loan-term loan payables	–	148,436	148,436
2011			
Financial assets			
Fixed rate			
Bank deposits	245,993	–	245,993
Loans to associated companies	45,175	–	45,175
	291,168	–	291,168
Floating rate			
Bank deposits	62,688	–	62,488

The Group is not exposed to changes in interest rates for fixed rate financial assets and financial liabilities, and the impact of the exposure to interest rate risk from financial assets at variable rate is not significant.

Notes to the Financial Statements

For the financial year ended 31 December 2012

3. Financial risk management (Cont'd)

(b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group conducts credit evaluations on borrowers and establishes an allowance for doubtful accounts based on estimates, factors surrounding the credit risks of specific borrower and any other relevant information.

The details of the Group's exposure to credit risk in relation to the Group's financial assets are described as follows:

(i) Due from related parties, non-controlling shareholders of subsidiaries and associated companies

When loans are granted to related companies, advance assessment is being made by the management on the recoverability of the loans, and whenever possible, security is required.

(ii) Trade receivables

It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

(iii) Refundable deposits

As set out in Note 22 to the financial statements, the Group exposed to credit risk in relation to refundable deposits as follow:

(A) the Group entered into a contractual arrangement with the holders of land use rights and a refundable deposit of RMB10,000,000 was paid as deposits to the holders of land use rights for a possible land development project located in PRC.

(B) On 15 September 2012, the Group entered into a conditional share transfer agreement ("Agreement") with a listed company in Hong Kong Exchanges and Clearing Limited ("Vendor") in relation to the acquisition of 55% equity interest in a property development company in Yichang, PRC. A refundable deposit of HK$150,000,000 was paid to the Vendor.

As at 31 December 2012 and 2011, the Group considers the credit risk associated with the balance is minimal and was mitigated by the contractual arrangement as the balance is refundable in nature and the maximum exposure to the credit risk is the maximum balance of the refundable deposits.

The deposit of RMB10,000,000 in relation to (A) was refunded to the Group during the financial year as the tender was unsuccessful.

Notes to the Financial Statements

For the financial year ended 31 December 2012

3. Financial risk management (Cont'd)

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient funds to enable it to meet its contractual and financial obligations. At the end of the reporting period, assets held by the Group for maintaining liquidity risk included cash and cash equivalents as disclosed in Note 28 to the financial statements.

To manage liquidity risk, the Group monitors its net operating cash flow and maintains a level of cash and cash equivalents, deemed adequate by management for working capital purposes so as to mitigate the effectiveness of cash flows.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
2012			
Trade and other payables	66,049	–	66,049
Borrowings	3,340	152,682	156,022
	69,389	152,682	222,071
2011			
Trade and other payables	75,374	–	75,374

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, repurchase shares, raise new debts, redeem existing debts or sell assets to reduce debts.

According to the Rule 723 of the Listing Manual of the SGX-ST, at least 10% of the Company's shares should be held in the hands of the public.

Apart from the above the Group is not subject to any other externally imposed capital requirements.

(e) Fair values estimation

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

Notes to the Financial Statements

For the financial year ended 31 December 2012

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.

In the process of applying the accounting policies, the directors have made a judgement that have the most significant effect on the amounts recognised in the financial statements apart from those involving estimations, are dealt with below.

(a) Valuation of investment properties

The Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

The carrying amounts of the relevant investment properties as at 31 December 2012 was approximately RMB27,500,000 (2011: RMB22,900,000).

(b) Taxation

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Impairment assessment for trade and other receivables and refundable deposits

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of trade and other receivables and refundable deposits, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of uncollectible debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of trade and other receivables allowance for impairment charge in the period in which such estimate has been changed.

If the net present values of estimated cash flows increase/decrease by 10% from management's estimates for all past due loans and receivables, the Group's allowance for impairment will decrease/increase by RMB432,000 (2011: RMB681,000) respectively.

The impairment of prepayments, deposits and other receivables for the financial year ended 31 December 2012 was approximately RMB2,538,000 (2011: RMB2,538,000).

(d) Estimated impairment of goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. The recoverable amount of goodwill and where applicable, cash-generating-units ("CGUs"), have been based on value-in-use calculations. These calculations require the use of estimates (Note 16).

4. Critical accounting estimates and judgements (Cont'd)

(d) Estimated impairment of goodwill (Cont'd)

If the management's estimated growth rate used in the value-in-use calculation for the CGUs have been lowered by 1%, or estimated pre-tax discount rate applied to the discounted cash flows for this CGUs had been raised by 1%, the value-in-use calculation at 31 December 2012 would have decreased by RMB3,942,000 and RMB2,098,000 respectively (2011: RMB9,091,000 and RMB1,210,000). This decrease in the value-in-use would have no impact to the carrying amount of goodwill amounting to RMB20,303,000 (2011: RMB20,303,000).

(e) Construction contracts

The Group recognises contract revenue to the extent of contract costs incurred where it is probable those costs will be recoverable or based on the stage of completion method. The stage of completion is measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract.

Significant judgement is required in determining the stage of completion, the extent of the contract cost incurred, the estimated total contract revenue and contract cost, as well as the recoverability of the contracts. Total contract revenue also includes an estimation of the recoverable variation works that are recoverable from the customers. In making the judgement, the Group evaluates by relying on past experience.

If the revenue on uncompleted contracts at the end of the reporting period has been higher/lower by 10% from management's estimates, the Group's revenue would have been higher/lower by approximately RMB2,004,000 (2011: RMB377,000).

If the contract costs of uncompleted contracts to be incurred had been higher/lower by 10% from management's estimates, the Group's profit would have been lower/higher by approximately RMB338,000 (2011: RMB659,000).

(f) Impairment of investment in associated companies

The Group tests annually whether interests in associated companies have suffered any impairment based on both quantitative and qualitative criteria. Such assessments include various estimates and assumptions, the financial health, cashflow projection and future prospects of the respective associated companies. In assessing the recoverable amount of investments in associated companies, the entire carrying amount of the investment including goodwill is tested as a single asset.

At the end of each reporting period, the net carrying amount of interests in respective associated companies, comprising the net of the equity investments in associated companies, interest receivables from associated companies and due from/(to) associated companies, are as follows:-

	2012 RMB'000	**2011 RMB'000**
Interests in Future Trillion Holdings Limited ("Future Trillion") and its subsidiary (the "Future Trillion Group")	106,563	93,230
Interests in LiuHe County YuKun Mining Co. Ltd. ("Liuhe") and its subsidiary (the "Liuhe Group")	49,288	44,728
	155,851	137,958

Notes to the Financial Statements

For the financial year ended 31 December 2012

4. Critical judgements and key estimates (Cont'd)

(f) Impairment of investment in associated companies (Cont'd)

As at 31 December 2012, the recoverable amount of the Group's interests in Future Trillion Group and the Liuhe Group of approximately RMB106,563,000 and RMB49,288,000 respectively (2011: RMB93,230,000 and RMB44,728,000) is determined by reference to exploration and evaluation assets held by the associated companies. In determining whether there is an impairment of the exploration and evaluation assets in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources", the directors assessed whether any key impairment indicators which indicates that there is impairment on its exploration and evaluation assets including:

(i) The period for which the associated companies has the right to explore in the specific area has expired during the financial year or will expire in the near future, and is not expected to be renewed;

(ii) Substantive expenditure on further exploration for and evaluation of natural gas resources in the specific area is neither budgeted nor planned;

(iii) Exploration for and evaluation of natural gas and gold resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the associated companies has decided to discontinue such activities in the specific area;

(vi) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

As set out in Note18(a) to the financial statements, the Group has not identified any of these impairment indicators of the exploration and evaluation assets held by the associated companies.

(g) Ownership of properties

In March 2006, CIHL (Tianjin) Water Development Company Limited ("Water Development") obtained approval from the local government agency, to authorise the use of the parcel of land directly associated with water plant and its ancillary facilities for the purpose of supplying gray water for a period of 50 years. As at 31 December 2012, the legal title for the use of the above captioned parcel of land was not transferred to Water Development. Notwithstanding the fact that the Group has not obtained the relevant legal title of the land use rights, the directors consider that the Group obtained the right to use through contractual arrangement with the local government agency, hence they expect the transfer of legal titles in future should have no major difficulties.

(h) Fair value of discontinued operations

The carrying amount of the intangible assets as at 31 December 2012 amounting to RMB17,690,000. As at the date of this report, management is still in negotiation with the local government on the compensation quantum. However, based on management's historical experience, the compensation is typically higher than or equal the cost of construction. Therefore, management is of the view that there is no impairment in intangible assets based on the historical trend of the compensation received from local government.

Notes to the Financial Statements

For the financial year ended 31 December 2012

5. Revenue

	Group 2012 RMB'000	Group 2011 RMB'000
Revenue from land development construction contracts	30	14,950
Revenue from water supply of gray water and construction of water pipeline	60,397	63,994
	60,427	78,944
Less: PRC business tax and value added tax	(2,528)	(2,130)
	57,899	76,814

6. Other income - net

	Group 2012 RMB'000	Group 2011 RMB'000
Currency translation gain/(loss), net	1,401	(2,648)
Fair value gain on investment properties	4,600	1,400
Gain on disposals of property, plant and equipment	35	33
Interest income from:		
- banks	1,941	6,843
- loans to non-related parties	11,447	–
- loans to associated companies	2,045	1,244
Rental income, net	996	994
Other	768	413
	23,233	8,279

7. Finance costs

	Group 2012 RMB'000	Group 2011 RMB'000
Interest expenses on loans from non-related parties	2,420	–

Notes to the Financial Statements

For the financial year ended 31 December 2012

8. Employee benefits expense

	Group 2012 RMB'000	Group 2011 RMB'000
Salaries, allowances and bonuses	10,596	10,282
Pension costs of defined contribution plans	2,764	2,828
Employee share option expense	2,049	2,516
Other staff welfare	28	35
	15,437	15,661

9. Income tax expense

Tax expense attributable to profit is made up of:

	Group 2012 RMB'000	Group 2011 RMB'000
From continuing operations		
Profit for the financial year		
Current income tax – PRC enterprise income tax	5,990	3,688
Deferred income tax	2,264	3,055
	8,254	6,743
(Over)/under provision in prior financial years		
Current income tax – PRC enterprise income tax	(342)	66
Deferred income tax	(2,675)	(417)
	5,237	6,392
From discontinued operations		
Profit for the financial year		
Current income tax – PRC enterprise income tax	77	1,004
Deferred income tax	244	868
	321	1,872
(Over)/under provision in prior financial years		
Current income tax – PRC enterprise income tax	(28)	42
	293	1,914
Total income tax expense attributable to continuing and discontinued operations	5,530	8,306

Pursuant to relevant laws and regulations in PRC, the subsidiaries, CCI Andi Bridges Co., Ltd. ("Zuowei") is entitled to a reduction from PRC enterprise income tax up to 2011. The tax rate applicable to Zuowei is 25% in 2012 (2011: 24%).

Notes to the Financial Statements

For the financial year ended 31 December 2012

9. Income tax expense (Cont'd)

Pursuant to relevant laws and regulations in PRC, CIHL (Tianjin) Water Development Co., Ltd. ("Water Development") is exempted from PRC enterprise income tax for two years from its first profit-making year and thereafter are entitled to a 50% relief from PRC enterprise income tax for the following three years. Water Development was in its fifth profit-making year for the financial year ended 31 December 2012 and was therefore entitled to a 50% relief from PRC enterprise income tax for the financial year ended 31 December 2012. The tax rate applicable to Water Development for the financial year ended 31 December 2012 is 12.5% (2011: 12.5%).

Pursuant to relevant laws and regulations in PRC, other subsidiaries in PRC are required to pay PRC enterprise income tax at a standard rate of 25% (2011: 25%).

No provision for income tax of Hong Kong entities since there is no assessable profit for the financial year.

Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries, in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of the principal place of operation of the Group as follows:

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Profit before income tax from		
- continuing operations	23,267	13,356
- discontinued operations (Note 11)	1,285	5,776
	24,552	19,132
Tax calculated at PRC income tax rate of 25% (2011: 24%)	6,138	4,592
- Associated companies results reported net of tax	228	172
- Income not subject to tax	(1,203)	(210)
- Expenses not deductible for tax purposes	4,017	4,555
- (Over)/under provision of income tax in prior years	(370)	108
- Tax losses for which no deferred income tax asset was recognised	598	73
- Tax relief	(3,878)	(737)
- Utilisation of previously unrecognised tax losses	–	(247)
Income tax expense	5,530	8,306

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB598,000 (2011: RMB73,000) in respect of losses amounting to RMB2,684,000 (2011: RMB292,000) that can be carried forward against future taxable income. The tax losses can be carried forward up to a period of 5 years.

Notes to the Financial Statements

For the financial year ended 31 December 2012

10. Profit before income tax

The Group's profit before income tax is arrived at after charging/(crediting) the following:

	Group 2012 RMB'000	Group 2011 RMB'000
Auditors' remuneration		
Fees on audit services paid/payable to:		
- auditor of the Company	878	868
- other auditors	358	43
Fees on non-audit services paid/payable to:		
- other auditors	–	139
	1,236	1,050
Cost of inventories consumed (1)	3,796	4,654
Cost of land development services rendered (1)	180	9,348
Depreciation of property, plant and equipment (2)	5,876	5,202
Employee benefits expense (3) (Note 8)	15,437	15,661
Gain on disposals of property, plant and equipment	(35)	(33)
Legal and professional fees	6,504	908
Operating lease rental payments	1,012	783
Water pipeline installation and construction costs (1)	12,464	19,788

(1) The amount was included in cost of services provided.
(2) The amount of approximately RMB3,413,000 (2011: RMB3,178,000) was included in cost of services provided.
(3) The amount of approximately RMB1,075,000 (2011: RMB907,000) was included in cost of services provided.

11. Discontinued operations

CCI Andi Bridges Co., Ltd ("Andi"), a 60% owned subsidiary of the Company has been granted with a 25 years of concession rights on toll collection on 25 December 1998.

On 2 January 2013, the Company announced that Andi has been notified by Hebei Provincial Government to cease its toll charging operations effective from 31 December 2012.

As such, the assets and liabilities related to Andi except for the property, plant and equipment, which are not associated with the toll charging operations, are classified as discontinued operations on the statement of financial position, and the entire results from Andi are presented separately on the statement of comprehensive income as "Discontinued operations".

Notes to the Financial Statements

For the financial year ended 31 December 2012

11. Discontinued operations (Cont'd)

The impact of the discontinued operations on the cash flows of the Group is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Operating cash inflows	4,387	6,905
Investing cash outflows	–	(178)
Financing cash outflows	(1,824)	(1,700)
Total cash inflows	2,563	5,027

(a) Details of the assets directly associated with discontinued operations are as follow:

	Group 2012 RMB'000
Intangible assets	17,692
Prepayments, deposits and other receivables	159
Cash and bank balances (Note 28)	4,062
	21,913

(b) Details of the liabilities directly associated with discontinued operations are as follow:

	Group 2012 RMB'000
Other payables and accruals	3,116
Advance income	22
Current income tax liabilities	77
Deferred income tax liabilities	1,392
	4,607

Notes to the Financial Statements

For the financial year ended 31 December 2012

11. Discontinued operations (Cont'd)

(c) The results of the discontinued operations are as follows:

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Revenue	11,157	13,705
Cost of services provided	(5,258)	(5,615)
	5,899	8,090
Other income	116	64
Less:		
Other operating expenses	(4,719)	(2,356)
Finance costs	(11)	(22)
Profit before tax (Note 9)	1,285	5,776
Income tax expense	(293)	(1,914)
Net profit	992	3,862

12. Earnings/(loss) per share

Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial year.

Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares assumed the deemed exercise of the share options outstanding during the reporting period have been issued at no consideration.

The share options are not potential dilutive ordinary shares since the exercise price of the share options was higher than the average market price of the Company's ordinary shares during the financial year ended 31 December 2012 and 2011. Therefore, no shares were assumed to have been issued on the deemed exercise of the Company's outstanding share options during the financial year ended 31 December 2012 and 2011.

The calculation of basic and diluted earnings per share is based on the following:

	2012	**2011**
Profit/(loss) attributable to owners of the Company (RMB'000)		
- continuing operations	7,493	(2,182)
- discontinued operations	595	2,317
	8,088	135
Weighted average number of ordinary shares in issue ('000)	874,604	874,604
Basic and diluted earnings/(loss) per share (RMB Fen)		
- continuing operations	0.86	(0.25)
- discontinued operations	0.07	0.27
	0.93	0.02

Notes to the Financial Statements

For the financial year ended 31 December 2012

13. Property, plant and equipment

	Land and buildings RMB'000	Water plant and its ancillary facilities RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Group							
2012							
Cost							
Beginning of financial year	23,947	57,370	162	3,584	5,861	3,562	94,486
Reclassification	1,411	–	–	(1,411)	–	–	–
Additions	1,080	60	23	191	692	10,952	12,998
Disposals	–	–	–	–	(238)	–	(238)
End of financial year	26,438	57,430	185	2,364	6,315	14,514	107,246
Accumulated depreciation							
Beginning of financial year	5,236	3,934	94	1,288	3,177	–	13,729
Charge for the financial year	1,015	3,500	31	375	1,079	–	6,000
Disposals	–	–	–	–	(238)	–	(238)
End of financial year	6,251	7,434	125	1,663	4,018	–	19,491
Net book value							
End of financial year	20,187	49,996	60	701	2,297	14,514	87,755
2011							
Cost							
Beginning of financial year	13,480	50,318	157	1,803	5,193	6,124	77,075
Additions	10,467	–	5	1,781	668	4,490	17,411
Transfer	–	7,052	–	–	–	(7,052)	–
End of financial year	23,947	57,370	162	3,584	5,861	3,562	94,486
Accumulated depreciation							
Beginning of financial year	4,520	787	63	962	2,108	–	8,440
Charge for the financial year	716	3,147	31	326	1,069	–	5,289
End of financial year	5,236	3,934	94	1,288	3,177	–	13,729
Net book value							
End of financial year	18,711	53,436	68	2,296	2,684	3,562	80,757

Depreciation charge of RMB124,000 (2011: RMB87,000) has been capitalised and included in the development properties.

The Group's land and buildings are located in PRC.

Water Development has obtained approval from the local government agency, for the use of the parcel of land directly associated with water plant and its ancillary facilities for the purpose of supplying gray water for a period of 50 years. No official land use rights certificate has been issued for the use of the relevant land.

Notes to the Financial Statements

For the financial year ended 31 December 2012

14. Intangible assets

	Service concession arrangements RMB'000	Computer software RMB'000	Total RMB'000
Group			
2012			
Cost			
Beginning of financial year	36,650	–	36,650
Additions	–	122	122
Transferred to discontinued operations	(36,650)	–	(36,650)
End of financial year	–	122	122
Accumulated amortisation			
Beginning of financial year	17,365	–	17,365
Charge for the financial year	1,593	–	1,593
Transferred to discontinued operations	(18,958)	–	(18,958)
End of financial year	–	–	–
Net book value			
End of financial year	–	122	122
2011			
Cost			
Beginning and end of financial year	36,650	–	36,650
Accumulated amortisation			
Beginning of financial year	15,769	–	15,769
Charge for the financial year	1,596	–	1,596
End of financial year	17,365	–	17,365
Net book value			
End of financial year	19,285	–	19,285

Pursuant to the service concession arrangements signed with local government, the Group is allowed to operate and generate toll income from Zuowei bridge and its ancillary facilities for a period of 25 years from the date of commencement of its operation in February 1999. Upon expiration of the respective concession period, the Zuowei bridges and its ancillary facilities shall be transferred to the local government without compensation.

On 2 January 2013, the Group announced that they have been notified by Hebei Provincial Government to cease its toll charging operations with effect from 31 December 2012.

Notes to the Financial Statements

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15. Investment properties

	Group	
	2012	2011
	RMB'000	RMB'000
Beginning of financial year	22,900	21,500
Fair value gain recognised in profit or loss	4,600	1,400
End of financial year	27,500	22,900

The Group's investment properties are located in PRC and are held to generate rental income.

Investment properties are carried at fair values at the end of the reporting period as determined by independent professional valuers. Valuations are made annually by making reference to sales evidence as available in the market and where appropriate on the basis of capitalisation of the net rental income.

Investment properties are leased to non-related parties under operating leases (Note 37(b)).

Direct operating expenses, including repairs and maintenance, of approximately RMB254,000 (2011: RMB253,000) are recognised in profit or loss.

16. Goodwill

	Group	
	2012	2011
	RMB'000	RMB'000
Cost and carrying value		
Beginning and end of financial year	20,303	20,303

Goodwill arose from business combination is allocated to water supply service cash-generating-units ("CGUs") comprising Water Development at acquisition. CGUs are expected to benefit from that business combination.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the management with a growth rate of 43% (2011: 16.5%). Discount rate of approximately 28.9% (2011: 45.2%) was used for the cash flow forecasts as at 31 December 2012.

If the management's estimated growth rate used in the value-in-use calculation for the CGUs has been lowered by 1%, or estimated pre-tax discount rate applied to the discounted cash flows for this CGUs had been raised by 1%, the value-in-use calculation at 31 December 2012 would have decreased by RMB3,942,000 and RMB2,098,000 respectively (2011: RMB9,091,000 and RMB1,210,000).

Notes to the Financial Statements

For the financial year ended 31 December 2012

17. Investment in subsidiaries

	Company 2012 RMB'000	Company 2011 RMB'000
Unlisted investments, at cost	264,060	264,060
Less: Impairment losses	(44,011)	(44,011)
	220,049	220,049
Due from subsidiaries	429,011	519,573
Less: Impairment losses	(15,379)	(15,379)
	413,632	504,194
Due to subsidiaries	166,637	128,712

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

Details of the subsidiaries are as follows:

	Name of companies	Principal activities	Place of incorporation/ establishment	Issued and paid-up capital	Equity holding 2012 %	Equity holding 2011 %
	Held by the Company					
(a)(b)	Hebei Bridges Investments Limited ("HBIL")	Investment holding	Samoa	US$2,891,567	100	100
(a)(b)	Tianjin Bridges Investments Limited ("TBIL")	Investment holding	Samoa	US$28,915,663	100	100
(a)(c)	China Toll Bridges & Roads (S) Pte. Limited	Dormant	Singapore	US$9,780	100	100
(a)	China Infrastructure Management (Hong Kong) Limited	Provision of management services to the Group	Hong Kong	HK$10,000	100	100
(a)(b)	China (Tianjin) Water Resources Limited ("CTWRL")	Investment holding	Samoa	US$1	100	100
(a)(b)	CIHL Development Limited ("CHIL Dev")	Investment holding	Samoa	US$1	100	100
(a)(b)	Pinnacle China Ltd ("PCL")	Investment holding	British Virgin Islands	US$1	100	100

17. Investment in subsidiaries (Cont'd)

Details of the subsidiaries are as follows (Cont'd):

Name of companies	Principal activities	Place of incorporation/ establishment	Issued and paid-up capital	Equity holding 2012	Equity holding 2011
				%	%
Held by HBIL					
(a)(d) CCI Andi Bridges Co., Ltd ("Zuowei")	Toll bridge operations and management	PRC	US$2,410,000	55	60
Held by TBIL					
(a)(e) CIH Haimen (Tianjin) Enterprise Limited ("Haimen")	Dormant	PRC	RMB48,000,000	75	75
Held by CTWRL					
(a)(f) CIHL (Tianjin) Water Development Co., Ltd. ("Water Development")	Construction of water pipeline and supply of gray water	PRC	RMB60,000,000	60	60
Held by CHIL Dev					
(a)(g) CIHL (Tianjin) City Development Limited ("XZCID")	Investment holding and property investment	PRC	RMB50,000,000	100	100
Held by XZCID					
(a)(h) Tianjin CIHL Xinzhong Real Estate Development Co., Limited. ("XZPD")	Property development	PRC	RMB30,000,000	100	100
(a)(i) Beijing Shiji Longquan Real Estate Development Co., Limited ("SJLQ")	Provision of engineering and land leveling service for preliminary land development projects	PRC	RMB10,000,000	95	95

Notes to the Financial Statements

For the financial year ended 31 December 2012

17. Investment in subsidiaries (Cont'd)

(a) *Reviewed by Nexia TS Public Accounting Corporation for consolidation purposes.*

(b) *Not required to be audited under the laws of country of incorporation.*

(c) *Audited by Robert Tan & Co.*

(d) *Audited by Zhangjiakou Zhangyuan Certified Public Accountants Co. Ltd.*

(e) *Audited by HLB (Tianjin) Certified Public Accountants.*

(f) *Audited by BDO Zhonglian Mindu Shu Lun Pan Certified Public Accountants Co., Ltd.*

(g) *Audited by Zhongrui Yuehua Certified Public Accountants TianJin Branch. XZCID operates a branch office 天津新中城市實業發展有限公司北京工程管理分公司 ("XZCID Beijing Branch") with statutory registration in Beijing, PRC. The registered capital of XZCID was RMB50,000,000. As at 31 December 2011, the Group has fulfilled its investment obligation to the extent of RMB7,851,050.*

(h) *Audited by Tianjin ChengTai Certified Public Accountants Co. Ltd. The registered capital of XZPD was increased from RMB20,000,000 to RMB30,000,000 for the financial year ended 31 December 2011. As at 31 December 2011, the Group has fulfilled its investment obligation.*

(i) *Audited by Beijing ZhongYanTong Accountant Office Co., Ltd.*

In accordance to Rule 716 of the Singapore Exchange Securities Trading Limited-Listing Rules, the Audit Committee and the Board of Directors of the Company confirmed that they are satisfied that the appointment of different auditors for its subsidiaries would not compromise the standard and effectiveness of the audit of the consolidated financial statements.

18. Investment in associated companies

	Note	Group 2012 RMB'000	Group 2011 RMB'000
Unlisted investment in associated companies	(a)	100,996	97,025
Due from associated companies	(b)	52,295	45,175
Due to associated companies	(b)	–	(5,469)
Interest receivables (included in prepayments, deposits and other receivables)		2,560	1,227
		155,851	137,958

Note

(a) Investment in associated companies

	Note	Group 2012 RMB'000	Group 2011 RMB'000
Investment in Future Trillion Group	(i)	58,867	59,406
Investment in Liuhe Group	(ii)	42,129	37,619
		100,996	97,025

Notes to the Financial Statements

For the financial year ended 31 December 2012

18. Investment in associated companies (Cont'd)

(a) Investment in associated companies (Cont'd)

(i) Investment in Future Trillion Group

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Unlisted investments		
Share of net assets	19,256	19,386
Goodwill	39,611	40,020
	58,867	59,406

Details of Future Trillion Group are as follows:

Name of companies	Principal activities	Place of incorporation /registration	Issued and paid up capital	Equity holding 2012	Equity holding 2011
				%	%
(a)(b)(d) Future Trillion Holdings Limited ("FT")	Investment holding	British Virgin Islands	US$3,055	34.53	34.53
Held by FT					
(a)(c) MKS Limited	Provision for natural gas exploration	Independent State of Papua New Guinea	Kina7,257,000	28.35	28.35

(a) Reviewed by Nexia TS Public Accounting Corporation for consolidation purposes.

(b) Not required to be audited under the laws of country of incorporation.

(c) Audited by A & A Registered Public Accountants.

(d) In 2011, the Group entered into a contractual arrangement to subscribe for 388 ordinary shares of Future Trillion at a consideration of approximately RMB22,277,000 (equivalent to US$3,500,000). Following the completion of the subscription, the Group's investment in Future Trillion and MKS increased from 25% to 34.53% and from 20% to 28.35% respectively. The subscription was completed on 16 December 2011, the Group has fulfilled its investment obligation of approximately RMB16,808,000 in 2011 and approximately RMB5,469,000 in 2012.

Notes to the Financial Statements

For the financial year ended 31 December 2012

18. Investment in associated companies (Cont'd)

(a) Investment in associated companies (Cont'd)

(i) Investment in Future Trillion Group (Cont'd)

Summaried financial information in respect of Future Trillion Group is set out as below:

	2012 RMB'000	2011 RMB'000
As at 31 December		
Total assets	131,216	116,575
Total liabilities	(68,253)	(53,978)
Net assets	62,963	62,597
Less: Non-controlling interests	(7,199)	(6,452)
Net assets attributable to owners of Future Trillion Group	55,764	56,145
Group's share of associates' net assets	19,256	19,386
Financial year ended 31 December		
Total revenue	–	–
Loss for the financial year	(2,169)	(1,280)
Share of loss of associated company	(749)	(320)

Future Trillion Group obtained an exploration right license of a natural gas exploration project in June 2008. Details of the exploration right license are as follows:

Name of license	Location	Area of license	Expiration date
Petroleum Propecting License (License number: 294)	Independent State of Papua New Guinea	Approximately 6,000 km^2	June 2014

Future Trillion Group performed different exploration and geological studies for the exploration project for the financial year ended 31 December 2012. Based on integration of the updated surface geology data, the re-processing and re-interpretation of seismic data, and the construction of balanced structural cross sections, a re-evaluation of the AOI-2 area has resulted in a 3D subsurface model that provides a more confident interpretation of the area's prospectivity. As a result, the Tumuli interpretation is considered to be more reliable, the level of geological risk has been reduced.

The future prospect of the Group's investment in Future Trillion Group is largely dependent on the discovery of the existence of economic viable resources of the natural gas exploration project. Further exploration and study will be needed to ensure the said area contains economically viable resources. The project is still in exploration stage and further exploration and study has not been completed subsequent to the end of the reporting period and up to the date of this report.

18. Investment in associated companies (Cont'd)

(a) Investment in associated companies (Cont'd)

(ii) Investment in Liuhe Group

	Group 2012 RMB'000	Group 2011 RMB'000
Unlisted investments		
Share of net assets	25,085	20,575
Goodwill	17,044	17,044
	42,129	37,619

Details of Liuhe Group are as follows:

	Name of companies	Principal activities	Place of incorporation /registration	Issued and paid up capital RMB'000	Equity holding 2012 %	Equity holding 2011 %
(a)(b)(c)	LiuHe County YuKun Mining Co. Ltd. ("Liuhe") ("柳河县钰坤矿业有限公司")	Provision for gold mining	PRC	64,000	19.9	20
Held by Liuhe						
(a)(b)	LiuHe County AiPuLei Mining Co. Ltd. ("Aipulei") ("柳河县爱普勒矿业有限公司")	Provision for gold exploration	PRC	500	19.9	20

(a) Reviewed by Nexia TS Public Accounting Corporation for consolidation purposes.

(b) Audited by Liuhe JinLu Certified Public Accountants.

(c) The registered capital was increased from RMB40,000,000 to RMB64,000,000 for the financial year ended 31 December 2012. As at 31 December 2012, the Group has fully fulfilled its investment obligation based on the relative proportion of equity interest in Liuhe.

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For the financial year ended 31 December 2012

18. Investment in associated companies (Cont'd)

(a) Investment in associated companies (Cont'd)

(ii) Investment in Liuhe Group (Cont'd)

Summaried financial information in respect of Liuhe Group is set out as below:

	2012 RMB'000	2011 RMB'000
As at 31 December		
Total assets	185,322	144,055
Total liabilities	(59,267)	(41,181)
Net assets	126,055	102,874
Group's share of associates' net assets	25,085	20,575
Financial year ended 31 December		
Total revenue	–	–
Loss for the financial year	(819)	(1,904)
Share of loss of associated company	(164)	(381)
Dilution loss in investment	(62)	–

Liuhe Group holds a mining right license and an exploration right license in the surrounding area associated with the mining right expiring in November 2017 and exploration right expired in December 2012 respectively. The existing gold mining operation was suspended in 2008 following the drill out of high-graded mineral reserves. During the financial year, Liuhe Group completed several geological and technical studies to establish the existence of proved and probable mine reserve estimates of the surrounding area of the existing mining right license and has applied for the renewal of existing exploration right license.

Details of the exploration and mining right licenses are as follows:

Name of license	Location	Mining capacity	Area of license	Expiration date
Mining right license ("采矿许可证") (License number: C2200002010124120089728)	PRC	99,000 ton /year	1.28km^2	November 2017
Exploration right license ("矿产资源勘查许可证") (License number: T22120101202043010)	PRC	N/A	26.85km^2	–

18. Investment in associated companies (Cont'd)

(b) Due from/(to) associated companies

(i) Due from Future Trillion of approximately RMB45,432,000 (2011: RMB38,312,000) is denominated in United Stated Dollars, and is secured by equity interests in Future Trillion Group held by its controlling shareholder and corporate guarantee executed by the controlling shareholder of Future Trillion, interest bearing at 6% (2011: 6%) per annum and is repayable in 2013; and

(ii) Due from Liuhe Group of approximately RMB6,863,000 (2011: RMB6,863,000) is denominated in Renminbi, and is unsecured, interest bearing at 12% (2011: 10%) per annum and is repayable in 2013.

The fair value of the amounts due from/(to) associated companies approximates their carrying amounts.

19. Long-term loan receivable

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Loan to a non-related party	150,000	–

On 9 April 2012, the Group entered into loan arrangements with a non-related party to extend a loan of RMB150,000,000. This loan is unsecured, interest-bearing at 9.25% per annum and will be repayable in full on 9 April 2015.

The carrying amounts and fair value of the long-term loan receivable is as follows:

	Group	
	2012	
	Carrying amount	**Fair value**
	RMB'000	**RMB'000**
Loan to a non-related party	150,000	154,661

The fair values are determined from the cash flow analysis, discounted at annual market borrowing rate of 6.15% (2011: Nil) of an equivalent instrument at the end of the reporting period which management expects to be available to the Group.

Notes to the Financial Statements

For the financial year ended 31 December 2012

20. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The analysis of deferred income tax assets and liabilities is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
To be recovered/settled within on year		
Deferred income tax assets	606	519
Deferred income tax liabilities	(5,454)	(6,926)
Deferred income tax liabilities - net	(4,848)	(6,407)

The gross movement on the deferred income tax account is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Beginning of financial year	6,407	2,901
(Credited)/charged to profit or loss	(167)	3,506
Reclassified to discontinued operations (Note 11)	(1,392)	–
End of financial year	4,848	6,407

The movement in deferred income tax assets and liabilities during the financial year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation	Fair value gain on investment properties	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2012				
Beginning of financial year	1,185	2,283	2,939	6,407
Charged/(credited) to profit or loss	1,271	1,150	(2,588)	(167)
Reclassified to discontinued operations (Note 11)	(1,392)	–	–	(1,392)
End of financial year	1,064	3,433	351	4,848
2011				
Beginning of financial year	257	1,933	711	2,901
Charged to profit or loss	928	350	2,228	3,506
End of financial year	1,185	2,283	2,939	6,407

Notes to the Financial Statements

For the financial year ended 31 December 2012

20. Deferred income tax (Cont'd)

As at 31 December 2012, no deferred tax has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in PRC as the Group is in a position to control the timing of the remittance of earning and it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The deferred tax liabilities not recognised is approximately RMB5,462,000 (2011: RMB1,082,000).

21. Properties for development

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Amount comprises:		
Prepaid land lease payments	200,000	200,000
Other construction costs and capitalised expenditures	40,334	35,207
	240,334	235,207

In August 2010, the Group acquired the land use rights of a parcel of land located in Tianjin, PRC, for property development through public auction at a consideration of RMB200,000,000. As at 31 December 2012, the property development project was under preliminary design stage and no substantial construction works have been commenced subsequent to the end of the reporting period.

Other details of the property development project are as follows:-

Gross site areas	:	121,778.90m^2
Expected completion date	:	Before June 2016
Effective Group interest	:	100%

22. Refundable deposits

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Beginning of financial year	10,000	10,000
Additions	122,235	–
Refunded during the financial year	(10,000)	–
End of financial year	122,235	10,000

On 10 June 2008, the Group entered into a contractual arrangement with the holders of land use rights and a refundable deposit of RMB10,000,000 (2011: RMB10,000,000) was paid as deposits payment of compensation to the holders of land use rights for a possible land development project located in PRC. Pursuant to the contractual arrangement, the acquisition of land use rights will be completed when the holders of the land use rights commence the pre-construction work and approval for the land development project is obtained from the local government. RMB10,000,000 was paid upon the inception of the contractual arrangement and the remaining RMB240,000,000 is due for payment 30 days after the holders of the land use rights commenced the pre-construction work and approval for the land development project is obtained from the local government.

Notes to the Financial Statements

For the financial year ended 31 December 2012

22. Refundable deposits (Cont'd)

Pursuant to the contractual agreement, the deposit is refundable to the Group if the tender was unsuccessful. In 2012, the deposit was refunded to the Group as the tender was unsuccessful.

On 15 September 2012, the Group entered into a conditional share transfer agreement ("Agreement") with a company listed on Hong Kong Exchanges and Clearing Limited ("Vendor") in relation to the acquisition of 55% equity interest in a property development company in Yichang, PRC. A refundable deposit of HK$150,000,000 was paid to the Vendor.

Pursuant to the share transfer agreement, the deposit is refundable if any conditions precedent under the agreement is not fulfilled or if the Group exercises its right to terminate under the terms of the agreement. The acquisition is still subject to SGX and shareholders' approval.

23. Prepayments, deposits and other receivables

		Group		Company	
		2012	**2011**	**2012**	**2011**
	Note	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Deposits		377	374	52	52
Prepayments	(a)	4,303	3,744	324	241
Other receivables	(b)	98,963	5,600	–	–
		103,643	9,718	376	293
Less: Impairment loss on other receivables		(2,538)	(2,538)	–	–
		101,105	7,180	376	293

The prepayments, deposits and other receivables are mainly denominated in Renminbi.

Note

(a) The Group's prepayments as at 31 December 2011 include prepayments paid to a related party of approximately RMB1,100,000. The balances are unsecured, interest free and have no fixed repayment terms. In 2012, the prepayments were refunded to the Group.

(b) The Group's other receivables as at 31 December 2012 include balance due from a local government agency of approximately RMB2,338,000 (2011: RMB2,338,000). The Group has entered into a contractual arrangement with the local government agency for reimbursement of payments for the upgrade of Haimen bridge in 2008. Pursuant to the contractual arrangement, the balance was overdue and the management has assessed the recoverability of the outstanding balance and full impairment on the outstanding balance was recognised for the year ended 31 December 2011.

The Group's other receivables as at 31 December 2012 include an amount of RMB90,000,000 (2011: Nil) receivable from a government agency in relation to an agreement entered into on 31 July 2012, on a cost-plus project management fee and the cost of project financing basis. The Re-development Centre is a governmental agency under the District Government of Men Tou Gou, Beijing, and is responsible for the residential relocation development projects in Men Tou Gou District. The Project is situated in an area approximately 32,300 square meters in Men Tou Gou District. The Group will be responsible for the provision of project financing, site preparation and the construction of 119,500 square meters of relocation housing on the site. The project is funded entirely from internal sources of the Group. This amount is unsecured, interest bearing at 6.15% per annum and is repayable in 2013. The fair value of this amount approximates its carrying amounts.

24. Inventories

	Group	
	2012	2011
	RMB'000	RMB'000
Raw materials for construction of water pipeline	2,131	939

25. Trade receivables

The Group offers 0 to 30 days (2011: 0 to 30 days) credit terms to customers for water supply service. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

The trade receivables of the Group comprise 2 receivables (2011: 2 receivables) that individually represent 28-43% (2011: 27-64%) of trade receivables.

The aging analysis of trade receivables, based on the invoice date is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
0 to 30 days	682	164
More than 30 days	4,322	6,810
	5,004	6,974

As at 31 December 2012, trade receivables of RMB4,322,000 (2011: RMB6,810,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. Management believes that the amounts that are past due are collectible, based on historic payment behaviour and credit-worthiness of the customers.

The aging analysis of these trade receivables is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
0 to 30 days	365	116
More than 30 days	3,957	6,694
	4,322	6,810

All trade receivables are denominated in Renminbi.

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For the financial year ended 31 December 2012

26. Gross amounts due from/(to) customers for contract work

	Group	
	2012	2011
	RMB'000	RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	40,731	18,210
Less: Progress billings	(25,580)	(7,547)
	15,151	10,663
Gross amount due from customers for contract work	20,650	15,341
Gross amount due to customers for contract work	(5,499)	(4,678)
	15,151	10,663

Advances received in respect of construction contracts amounted approximately RMB9,889,000 as at 31 December 2012 (2011: RMB10,316,000) is included in receipts in advance.

27. Due from/(to) related parties and non-controlling shareholders of subsidiaries

The amounts due from/(to) related parties and non-controlling shareholders of subsidiaries are unsecured, interest-free and have no fixed repayment terms. These amounts are denominated in Renminbi.

28. Cash and cash equivalents

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	74,424	300,140	*	*
Restricted bank balances	143	8,463	-	-
	74,567	308,603	*	*

* *Less than RMB1,000*

As at 31 December 2012, restricted bank balances of approximately RMB143,000 (2011: RMB8,463,000) was placed for securing the performance and fund utilisation for a land development project of the Group (2011: securing the performance and fund utilisation for a land development project of the Group and purchases of property, plant and equipment).

28. Cash and cash equivalents (Cont'd)

The total cash and bank balances are denominated in the following currencies:

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi	69,874	308,065	–	–
Hong Kong dollar	4,677	518	–	–
United States dollar	4	3	–	–
Singapore dollar	12	17	*	*
	74,567	308,603	*	*

* *Less than RMB1,000*

Renminbi is not freely convertible to other currencies as such amounts were held by the subsidiaries located in PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies only through banks that are authorised to conduct foreign exchange business.

For the purpose of presenting the consolidated statement of cash flows, the cash and cash equivalents comprise the following:

	Group	
	2012	2011
	RMB'000	RMB'000
Cash and bank balances (as above)	74,567	308,603
Less: Restricted bank balances	(143)	(8,463)
Cash held by discontinued operations (Note 11(a))	4,062	–
Cash and cash equivalents per consolidated statement of cash flows	78,486	300,140

29. Trade payables

Trade payables generally have credit terms ranging from 0 to 30 days and are denominated in Renminbi.

30. Other payables and accruals

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Accruals	5,971	7,861	1,197	979
Other payables	3,749	11,876	1,161	1,161
	9,720	19,737	2,358	2,140

The other payables and accruals are mainly denominated in Renminbi.

Notes to the Financial Statements

For the financial year ended 31 December 2012

31. Long-term loan payables

	Group	
	2012	2011
	RMB'000	RMB'000
Loan from non-related parties	148,436	–

On 9 April 2012, the Group entered into loan arrangements with two non-related parties to secure loans for amounts of HK$159,400,000 and HK$25,199,000 respectively. These loans are unsecured, interest-bearing at 2.25% per annum and will be repayable in full on 9 April 2015.

The carrying amounts and fair value of the long-term loan payables is as follows:

	Group	
	2012	
	Carrying amount	Fair value
	RMB'000	RMB'000
Loan from non-related parties	148,436	131,143

The fair values are determined from the cash flow analysis, discounted at annual market borrowing rate of 6.15% (2011: Nil) of an equivalent instrument at the end of the reporting period which management expects to be available to the Group.

32. Share capital

(a) Ordinary shares

	Group and Company	
	2012	2011
	S$'000	S$'000
Authorised:		
20,000,000,000 ordinary shares of S$0.05 each	1,000,000	1,000,000

	Number of shares	Amount
	'000	RMB'000
Issued and fully paid:		
Ordinary shares of S$0.05 each		
2011 and 2012		
Beginning and end of financial year	874,604	219,943

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For the financial year ended 31 December 2012

32. Share capital (Cont'd)

(b) Share options

Details of the specific categories of options are pursuant to CIHL Share Options Scheme adopted on 10 May 2004 (the "2004 Scheme") granted as follows:-

Date of grant	Vesting period	Exercise period	Exercise price
			S$
25 March 2006	40% of 4,500,000 options to be vested on 25 March 2007	25 March 2007 to 24 March 2011	0.05
	30% of 4,500,000 options to be vested on 25 March 2008	25 March 2008 to 24 March 2011	0.05
	30% of 4,500,000 options to be vested on 25 March 2009	25 March 2009 to 24 March 2011	0.05
6 August 2008	40% of 4,500,000 options to be vested on 6 August 2009	6 August 2009 to 5 August 2013	0.07
	30% of 4,500,000 options to be vested on 6 August 2010	6 August 2010 to 5 August 2013	0.07
	30% of 4,500,000 options to be vested on 6 August 2011	6 August 2011 to 5 August 2013	0.07

Under the 2004 Scheme, if the share options remain unexercised after a period of 5 years from the date of grant, the share options expire. Share options are forfeited if the employee leaves the Group before the share options vest. Share options previously vested would be lapsed one year after if the employee leaves the Group, unless the remuneration committee otherwise approved.

The 2004 Scheme was terminated on 2 August 2009 and the outstanding share options granted under the 2004 Scheme remains valid until their respective expiration date.

On 8 March 2010, the Group adopted another CIHL Share Options Scheme (the "2010 Scheme") and details of the specific categories of share options granted under the 2010 Scheme are as follows:

Date of grant	Vesting period	Exercise period	Exercise price
			S$
8 March 2010	50% of 20,000,000 options to be vested on 8 March 2011	8 March 2011 to 7 March 2015	0.075
	50% of 20,000,000 options to be vested on 8 March 2012	8 March 2012 to 7 March 2015	0.075
17 May 2010	50% of 3,000,000 options to be vested on 17 May 2011	17 May 2011 to 16 May 2015	0.087
	50% of 3,000,000 options to be vested on 17 May 2012	17 May 2012 to 16 May 2015	0.087
19 July 2010	50% of 1,500,000 options to be vested on 19 July 2011	19 July 2011 to 18 July 2015	0.079
	50% of 1,500,000 options to be vested on 19 July 2012	19 July 2012 to 18 July 2015	0.079
2 June 2011	50% of 24,500,000 options to be vested on 2 June 2012	2 June 2012 to 1 June 2016	0.052
	50% of 24,500,000 options to be vested on 2 June 2013	2 June 2013 to 1 June 2016	0.052

Notes to the Financial Statements

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32. Share capital (Cont'd)

(b) Share options (Cont'd)

Under the 2010 Scheme, if the share options remain unexercised after a period of 5 years from the date of grant, the share options expire. Share options are forfeited if the employee leaves the Group before the share options vest. Share options previously vested would be lapsed immediately after if the employee leaves the Group, unless the remuneration committee otherwise approved.

	2012		2011	
	Number of share options '000	Weighted average exercise price S$	Number of share options '000	Weighted average exercise price S$
Outstanding at the beginning of financial year	52,000	0.0645	27,500	0.0741
Granted during the financial year	–	–	24,500	0.0520
Outstanding at the end of financial year	52,000	0.0645	52,000	0.0645
Exercisable at the end of financial year	39,750	0.0684	16,000	0.0749

At the end of the reporting period, the outstanding share options have a weighted average remaining contractual life of 2.7 years (2011: 3.7 years) and the exercise prices range from S$0.052 to S$0.087 (2011: S$0.052 to S$0.087). The share-based payments to directors and executives recognised in profit or loss for the financial year ended 31 December 2012 was approximately RMB2,049,000 (2011: RMB2,516,000).

These fair values were calculated using the Binomial model. The inputs into the model are as follows:

	2012	2011
Share price	S$0.052	S$0.052
Exercise price	S$0.052	S$0.052
Expected volatility	65.80%	65.80%
Expected life	5 years	5 years
Risk free rates	1.02%	1.02%
Expected dividend yield	4.22%	4.22%
Exercise Multiple	2.2 and 2.8 times	2.2 and 2.8 times
Employee exit rate	0% and 13%	0% and 13%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 years (2011: 5 years). The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, excise restriction and behavioral considerations.

Notes to the Financial Statements

For the financial year ended 31 December 2012

33. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
2012							
Beginning of financial year	45,312	565,589	479	8,324	5,406	(251,369)	373,741
Total comprehensive loss for the financial year	–	–	–	–	–	(8,436)	(8,436)
Recognition of share-based payments	–	–	–	–	2,049	–	2,049
End of financial year	45,312	565,589	479	8,324	7,455	(259,805)	367,354
2011							
Beginning of financial year	45,312	565,589	479	8,324	2,890	(226,752)	395,842
Total comprehensive loss for the financial year	–	–	–	–	–	(8,859)	(8,859)
Payment of dividends	–	–	–	–	–	(15,758)	(15,758)
Recognition of share-based payments	–	–	–	–	2,516	–	2,516
End of financial year	45,312	565,589	479	8,324	5,406	(251,369)	373,741

Notes to the Financial Statements

For the financial year ended 31 December 2012

33. Reserves (Cont'd)

(c) Nature and purpose of reserves

(i) Share premium

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premium payable on repurchase of shares.

(ii) Contributed surplus

The contributed surplus of the Company and the Group represents the balance of the amount of credit arising from the capital reduction pursuant to a special resolution passed on 10 May 2004 for the reduction of issued and paid-up share capital of the Company from S$0.20 to S$0.05 on each of the 751,987,750 issued and paid-up shares.

(iii) Share options reserve

The fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments as set out in Note 2.28(iii) to the financial statements.

(iv) Capital redemption reserve

Capital redemption reserve arises from the reduction of the nominal value of the issued share capital of the Company upon the cancellation of the repurchased shares.

34. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Sales and purchases of goods and services

	2012 RMB'000	2011 RMB'000
Related parties		
- Cash received on behalf of the Group	4,991	49,479
- Rental and other operating expenses reimbursed/reimbursable	316	256
- Consultancy service fee paid	–	(1,300)
Associated companies		
- Interest income received/receivable	2,045	1,244

Other related parties comprise mainly companies which are controlled or significantly influenced by the Group's key management personnel and their close family members.

34. Related party transactions (Cont'd)

(b) Key management personnel compensation

Key management personnel compensation is as follows:

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Directors' fees	1,800	1,800
Salaries, allowances and bonuses	2,909	2,867
Pension costs of defined contribution plans	11	10
Share option expense	1,925	2,506
	6,645	7,183

The amounts above comprise directors' remuneration of the Company of RMB5,857,000 (2011: RMB6,358,000).

35. Segment information

The Group has four reportable segments as follows:

Toll collection	-	Toll income of toll bridges
Water supply services	-	Construction of water pipeline and supply of gray water
Land development	-	Provision of engineering and land leveling service for preliminary land development projects
Property development	-	Development and sale of properties

The Group's reportable segments are strategic business units that offer different products and services.

The accounting policies of the operating segments are the same as those set out in Note 2 to the financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2012

35. Segment information (Cont'd)

	Continuing operations				Discontinued operations	
	Water supply services RMB'000	Land development RMB'000	Property development RMB'000	All other segments RMB'000	Toll collection RMB'000	Total RMB'000
Financial year ended 31 December 2012						
Revenue	57,869	30	–	–	11,157	69,056
Segment results	35,446	(150)	–	–	5,899	41,195
Interest income	571	1,860	29	12,973	86	15,519
Rental income	–	–	–	1,017	–	1,017
Other income	29	35	–	718	30	812
Administrative expenses	–	–	–	(14,277)	–	(14,277)
Other operating expenses	(5,019)	(4,130)	–	(8,503)	(4,719)	(22,371)
Fair value gain on investment properties	–	–	–	4,600	–	4,600
Currency translation gain	–	–	–	1,401	–	1,401
Operating profit						27,896
Finance costs	(6)	–	–	(2,414)	(11)	(2,431)
Share of losses of associated companies	–	–	–	(913)	–	(913)
Income tax (expense)/ credit	(4,473)	572	–	(1,336)	(293)	(5,530)
Profit for the financial year						19,022
Depreciation and amortisation	(3,968)	(235)	–	(1,673)	(1,593)	(7,469)
Share option expense	–	–	–	(2,049)	–	(2,049)

Notes to the Financial Statements

For the financial year ended 31 December 2012

35. Segment information (Cont'd)

	Continuing operations				Discontinued operations	
	Water supply services RMB'000	Land development RMB'000	Property development RMB'000	All other segments RMB'000	Toll collection RMB'000	Total RMB'000
As at 31 December 2012						
Total assets	123,989	113,935	241,528	527,659	21,913	1,029,024
Total assets includes:						
Property, plant and equipment	57,046	192	352	30,165	–	87,755
Intangible assets	122	–	–	–	17,692	17,814
Goodwill	20,303	–	–	–	–	20,303
Investment properties	–	–	–	27,500	–	27,500
Investment in associated companies	–	–	–	100,996	–	100,996
Long-term loan receivable	–	–	–	150,000	–	150,000
Deferred income tax assets	585	–	–	21	–	606
Inventories and properties for development	2,131	–	240,334	–	–	242,465
Gross amounts due from customers for contract works	5,283	15,367	–	–	–	20,650
Trade receivables	5,004	–	–	–	–	5,004
Prepayments, deposits and other receivables	917	95,499	11	4,678	159	101,264
Refundable deposits	–	–	–	122,235	–	122,235
Due from associated companies	–	–	–	52,295	–	52,295
Due from related party	–	–	–	837	–	837
Due from non-controlling shareholders of subsidiaries	–	500	–	171	–	671
Cash and cash equivalents	32,598	2,377	831	38,761	4,062	78,629
Total assets						1,029,024
Addition to non-current assets	5,565	–	–	18,572	–	24,137

Notes to the Financial Statements

For the financial year ended 31 December 2012

35. Segment information (Cont'd)

	Continuing operations				Discontinued operations	
	Water supply services RMB'000	Land development RMB'000	Property development RMB'000	All other segments RMB'000	Toll collection RMB'000	Total RMB'000
As at 31 December 2012						
Total liabilities	40,347	3,977	300	206,949	4,607	256,180
Total liabilities includes:						
Trade payables	14,877	3,441	–	–	–	18,318
Other payables and accruals	986	536	300	7,898	3,116	12,836
Gross amounts due to customers for contract work	5,499	–	–	–	–	5,499
Receipts in advance	16,621	–	–	–	22	16,643
Due to non-controlling shareholders of subsidiaries	–	–	–	38,011	–	38,011
Current income tax liabilities	2,364	–	–	7,150	77	9,591
Deferred income tax liabilities	–	–	–	5,454	1,392	6,846
Long-term loan payables	–	–	–	148,436	–	148,436
Total liabilities						256,180

Notes to the Financial Statements

For the financial year ended 31 December 2012

35. Segment information (Cont'd)

	Continuing operations				Discontinued operations	
	Water supply services RMB'000	Land development RMB'000	Property development RMB'000	All other segments RMB'000	Toll collection RMB'000	Total RMB'000
Financial year ended 31 December 2011						
Revenue	61,920	14,894	–	–	13,705	90,519
Segment results	31,924	5,546	–	–	8,090	45,560
Interest income	946	77	157	6,906	60	8,146
Rental income	–	–	–	995	–	995
Other income	36	–	–	410	4	450
Administrative expenses	(6)	–	–	(12,142)	–	(12,148)
Other operating expenses	(3,765)	(3,335)	(449)	(9,457)	(2,356)	(19,362)
Fair value gain on investment properties	–	–	–	1,400	–	1,400
Currency translation loss	–	–	–	(2,648)	–	(2,648)
Allowance for impairment of other receivables	–	–	–	(2,538)	–	(2,538)
Operating profit						19,855
Finance costs	–	–	–	–	(22)	(22)
Share of losses of associated companies	–	–	–	(701)	–	(701)
Income tax expense	(3,367)	(572)	–	(2,453)	(1,914)	(8,306)
Profit for the financial year						10,826
Depreciation and amortisation	(3,352)	(361)	–	(1,489)	(1,596)	(6,798)
Share option expense	–	–	–	(2,516)	–	(2,516)

Notes to the Financial Statements

For the financial year ended 31 December 2012

35. Segment information (Cont'd)

	← Continuing operations			→	Discontinued operations	
	Water supply services RMB'000	Land development RMB'000	Property development RMB'000	All other segments RMB'000	Toll collection RMB'000	Total RMB'000
As at 31 December 2011						
Total assets	153,801	19,022	241,166	425,780	31,545	871,314
Total assets includes:						
Property, plant and equipment	61,050	157	547	16,358	2,645	80,757
Intangible assets	–	–	–	–	19,285	19,285
Goodwill	20,303	–	–	–	–	20,303
Investment properties	–	–	–	22,900	–	22,900
Investment in associated companies	–	–	–	97,025	–	97,025
Deferred income tax assets	498	–	–	21	–	519
Inventories and properties for development	939	–	235,207	–	–	236,146
Gross amounts due from customers for contract work	–	15,341	–	–	–	15,341
Trade receivables	6,974	–	–	–	–	6,974
Prepayments, deposits and other receivables	1,877	832	36	4,319	116	7,180
Refundable deposits	–	–	–	10,000	–	10,000
Due from associated companies	–	–	–	45,175	–	45,175
Due from related companies	–	–	–	517	–	517
Due from non-controlling shareholders of subsidiaries	–	500	–	89	–	589
Cash and cash equivalents	62,160	2,192	5,376	229,376	9,499	308,603
Total assets						871,314
Addition to non-current assets	4,495	–	–	12,916	–	17,411

Notes to the Financial Statements

For the financial year ended 31 December 2012

35. Segment information (Cont'd)

	Continuing operations				Discontinued operations	
	Water supply services RMB'000	Land development RMB'000	Property development RMB'000	All other segments RMB'000	Toll collection RMB'000	Total RMB'000
As at 31 December 2011						
Total liabilities	39,832	4,343	156	70,510	3,086	117,927
Total liabilities includes:						
Trade payables	8,420	3,560	–	–	–	11,980
Other payables and accruals	5,011	211	156	13,380	979	19,737
Gross amounts due to customers for contract work	4,678	–	–	–	–	4,678
Receipts in advance	18,440	–	–	–	–	18,440
Due to associated companies	–	–	–	5,469	–	5,469
Due to non-controlling shareholders of subsidiaries	–	–	–	38,188	–	38,188
Current income tax liabilities	3,283	572	–	7,695	959	12,509
Deferred income tax liabilities	–	–	–	5,778	1,148	6,926
Total liabilities						117,927

Geographical information	Revenue 2012 RMB'000	Revenue 2011 RMB'000	Non–current assets 2012 RMB'000	Non–current assets 2011 RMB'000
Hong Kong	–	–	12	27
PRC except Hong Kong	69,056	90,519	327,798	180,837
Overseas	–	–	58,866	59,406
	69,056	90,519	386,676	240,270

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

For the financial year ended 31 December 2012, revenue from two major customers contributed to the Group's revenue of approximately RMB7,990,000 and RMB6,109,000 respectively were included in water supply services segment.

For the financial year ended 31 December 2011, revenue from two major customers contributed to the Group's revenue of approximately RMB28,189,000 and RMB14,950,000 respectively were included in water supply service segment and land development segment respectively.

Notes to the Financial Statements

For the financial year ended 31 December 2012

36. Capital commitments

The Group's capital commitments at the end of the reporting period are as follows:

	2012 RMB'000	2011 RMB'000
Capital expenditure contracted but not provided for in the financial statements in respect of:		
- Additions of construction in progress – water pipelines and its ancillary facilities	747	760
- Computer software	326	–
	1,073	760

37. Lease commitments

(a) Operating lease commitments – where the Group is a lessee

The Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2012 RMB'000	2011 RMB'000
At 31 December		
Within one year	1,031	1,079
Within two years to five years	–	1,019
	1,031	2,098

Operating lease payments represent rentals payable by the Group for certain of its administrative office. Leases are negotiated for an average term of 2 years (2011: 2 years) and rentals are fixed over the lease terms and do not include contingent rentals.

(b) Operating lease commitments – where the Group is a lessor

The Group sublets premises to non-related parties under non-cancellable operating leases. The lessees are required to pay absolute fixed annual increase to the lease payments.

The future minimum lease receivables under non-cancellable operating leases contracted for at the end of the reporting period but not recognised as receivables, are as follows:

	2012 RMB'000	2011 RMB'000
At 31 December		
Within one year	1,319	1,055

38. Event after the reporting period

On 4 January 2013, a subsidiary of the Group, CHIL (Tianjin) City Development Limited acquired additional 5% equity interest of Beijing Shiji Longquan Real Estate Development Co., Limited from an existing non-controlling shareholder, thereby making it a wholly-owned subsidiary.

39. New or revised accounting standards and interpretations

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2013 or later periods and which the Group has not early adopted:

- Amendment to IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 July 2012)
- Amendment to IAS 19 – Employee Benefits (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2013)
- Amendment to IFRSs 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013)
- Annual improvements 2011 (effective for annual periods beginning on or after 1 January 2013)
    - IFRS 1 – First time adoption
    - IAS 1 – Presentation of Financial Statements
    - IAS 19 – Employee Benefits
    - IAS 16 – Property, Plant and Equipment
    - IAS 32 – Financial Instruments: Presentation
    - IAS 34 – Interim Financial Reporting
- IFRS 10 – Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 12 – Disclosure of Interest in Other Entities (effective for annual period beginning on or after 1 January 2013)
- IFRS 13 – Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)
- IAS 27 (revised 2011) – Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- IAS 28 (revised 2011) – Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013)
- IFRIC 20 – Stripping cost in the production phase of a surface mine (effective for annual periods beginning on or after 1 January 2013)
- Amendment to IAS 32 – Financial Instruments: Presentation (effective for annual periods beginning on or after 1 January 2014)
- IFRS 9 – Financial Instruments (effective for annual periods beginning on or after 1 January 2015)

40. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2013.

ROMA

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16 July 2013

China International Holdings Limited
Room 3001, 30/F,
Shun Tak Centre West Tower,
168-200 Connaught Road Central,
Hong Kong

Dear Sir/Madam,

Re: Business Valuation of 100% Equity Interest in Yichang Xinshougang Property Development Limited (宜昌新首鋼房地產開發有限公司)

In accordance with the instructions from China International Holdings Limited (hereinafter referred to as the "Company"), we have performed a business valuation of 100% equity interest in Yichang Xinshougang Property Development Limited (宜昌新首鋼房地產開發有限公司) (hereinafter referred to as the "Business Enterprise") as at 31 December 2012 (hereinafter referred to as the "Date of Valuation").

This report states the purpose and basis of valuation, scope of work, economic and industry overviews, an overview of the Business Enterprise, major assumptions, valuation methodology, limiting conditions, references, and presents our opinion of value.

1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors, management and shareholders of the Company, and Singapore Exchange Securities Trading Limited, for the inclusion in the shareholders' circular of the Company in connection with the proposed acquisition of 55% equity interest in the Business Enterprise. Roma Appraisals Limited (hereinafter referred to as "Roma Appraisals") acknowledges that this report may be made available to the Company for public documentation purpose and for inclusion in the circular of the Company.

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Roma Appraisals assumes no responsibility whatsoever to any person other than the directors, management and shareholders of the Company, and Singapore Exchange Securities Trading Limited in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and the information provided by the management of the Company, the Business Enterprise and/or their representative(s) (together referred to as the "Management").

In preparing this report, we have had discussions with the Management in relation to the development and prospect of the property development industry in China, and the development, operations and other relevant information of the Business Enterprise. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

3. ECONOMIC OVERVIEW

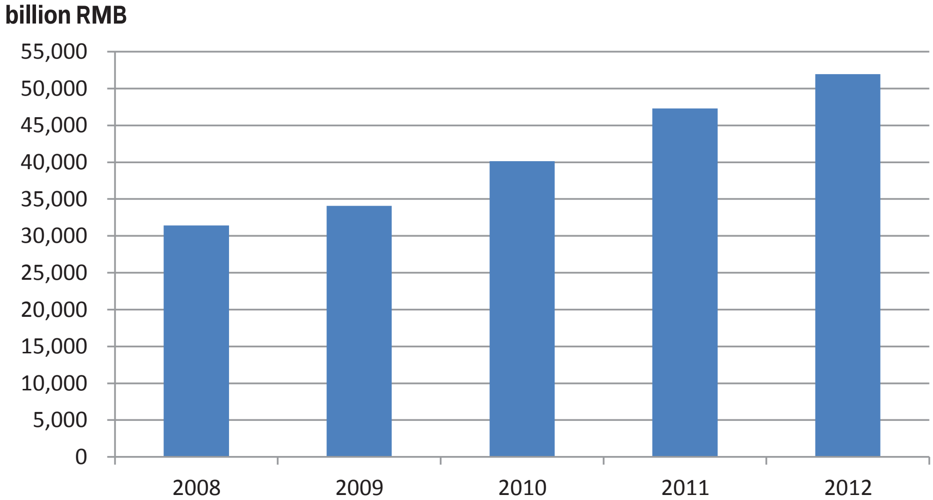
3.1 Overview on the Economy in China

According to the National Bureau of Statistics of China, the nominal gross domestic product ("GDP") of China in 2012 was RMB 51,932 billion, an increase of 9.8% over last year. China was the third largest economy in the world, ranked after the European Union and the United States, in terms of nominal GDP measured by the International Monetary Fund ("IMF") in 2012. Despite the global financial crisis in late 2008, the Chinese economy continued to be supported by the Chinese government through spending in infrastructure and real estates.

Throughout 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports. China's economy rebounded quickly in 2010, outperforming all other major economies with robust GDP growth and the economy remained in strong growth in 2011 and 2012.

Over the past decade from 2003 to 2012, compound annual growth rate of China's nominal GDP was 14.4% and in the government's latest plan, it is targeted to grow at 7% for the period from 2011 to 2015. Figure 1 further illustrates the nominal GDP of China from 2008 to 2012.

Figure 1 - China's Nominal Gross Domestic Product from 2008 to 2012



Source: National Bureau of Statistics of China

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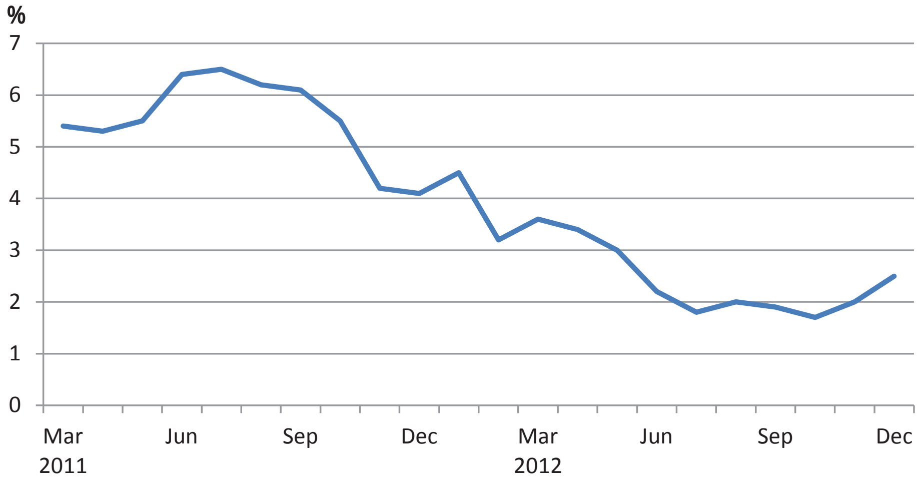
3.2 Inflation in China

Tackling inflation problem has long been the top priority of the Chinese government as high prices are considered as one of the causes of social unrest. For such a fast-growing economy, the middle-class' demand for food and commodities has been rising continuously. Inflation in China has been driven mainly by food prices, which have been stayed high in 2011. According to the National Bureau of Statistics of China, the consumer price index demonstrated an uptrend in the first half of 2011. Thanks to the government's policies in suppressing commodity prices, the inflation slowed in the second half of 2011 and first half of 2012. Figure 2 shows the year-over-year change in consumer price index of China from March 2011 to December 2012.

Figure 2 - Year-over-year Change in China's Consumer Price Index from March 2011 to December 2012



Source: National Bureau of Statistics of China

China's inflation rate was volatile during the past decade. According to the IMF, the average inflation rate in China increased sharply from 2.8% in 2006 to 6.5% in 2007, and then dropped drastically to 1.2% and 1.9% in 2008 and 2009 respectively. The inflation rate rebounded and increased to 4.6% in 2010 and maintained at a similar level of 4.1% in 2011. The inflation dropped again in 2012 to 2.5%. Figure 3 shows the historical trend of China's inflation rate from 2003 to 2012.

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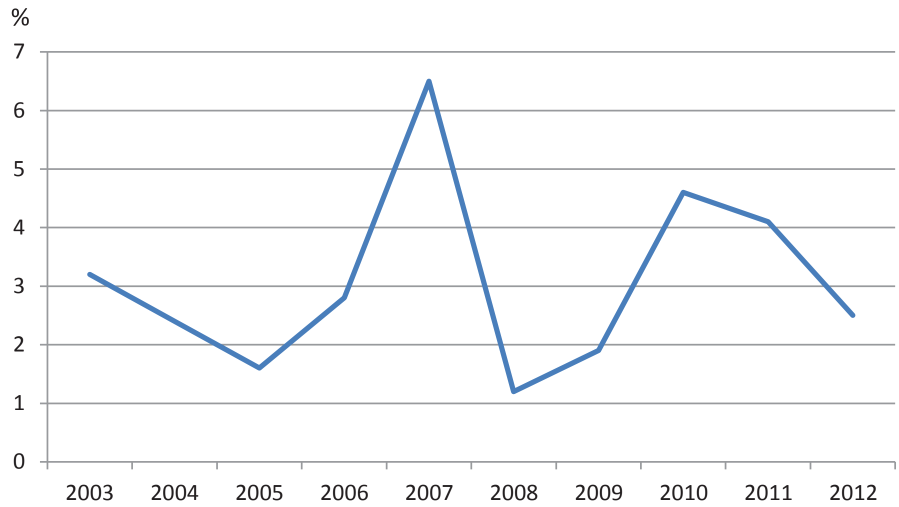
Figure 3 - China's Inflation Rate from 2003 to 2012



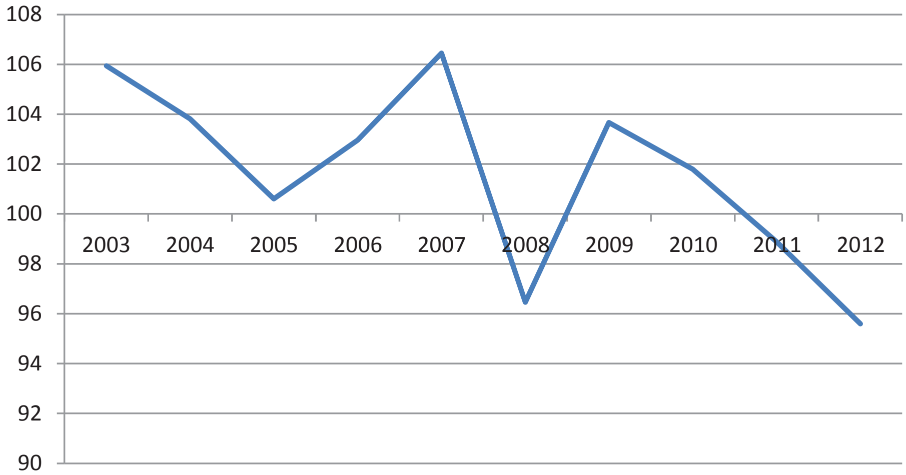
Source: International Monetary Fund

4. INDUSTRY OVERVIEW

4.1 Overview of the Property Development Industry in China

According to a news article published by the EpochTimes, real estate transactions for 20 cities in China dropped to 222,000 units in the first quarter of 2012, a decline of 28.3% compared to the same period in 2011. Since 2010, the Chinese government started to implement various tightening measures, such as posing a property tax on foreign investors and raising the interest rate, which aimed at preventing the burst of the real estate bubble in China. With 2000 as the base year, the China real estate climate index was calculated by eight indicators related to three aspects, which are land, capital and sales. The China real estate climate index dropped sharply in 2008 due to the financial tsunami and rebounded quickly in 2009 with the financial support of the government. However, it started to decline in 2010 because of the government's policies on real estate. Figure 4 shows the China real estate climate index from 2003 to 2012.

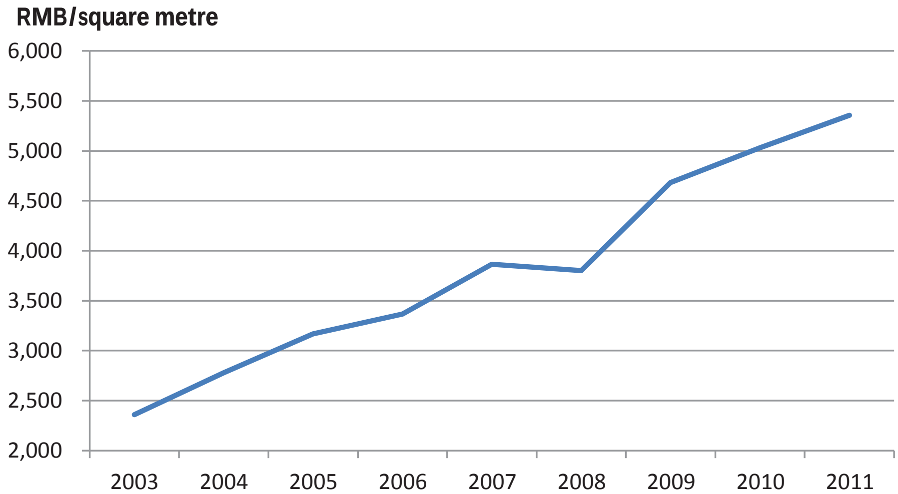
Figure 4 - China Real Estate Climate Index from 2003 to 2012



Source: National Bureau of Statistics of China

Despite the drop in the China real estate climate index, the real estate prices in China and the floor space of buildings sold in China maintained their upward trend since 2003. The increase in real estate price and floor space of buildings sold in China could be ascribed to the increase in demand of flats due to increase in population and improvement in living standard. Figure 5 and figure 6 show the China's real estate price from 2003 to 2011 and the floor space of buildings sold in China from 2003 to 2012 respectively.

Figure 5 - China's Real Estate Price from 2003 to 2011



Source: National Bureau of Statistics of China

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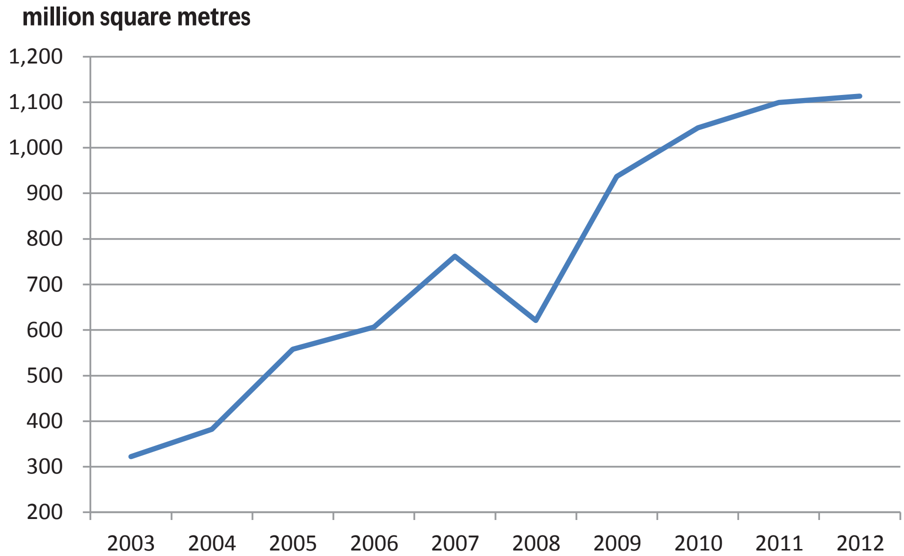
Figure 6 - Floor Space of Buildings Sold in China from 2003 to 2012



Source: National Bureau of Statistics of China

5. THE BUSINESS ENTERPRISE

The Business Enterprise is a property holding and developing company established in the People's Republic of China (the "PRC") with limited liability. With registered capital of RMB 20 million, the Business Enterprise was incorporated on 31 December 2006 and is principally engaged in property development, property management, asset management and investment consultation. The Business Enterprise holds the land use right (hereinafter referred to as the "Land Use Right") of a piece of land (hereinafter referred to as the "Land") of approximately 587,726 square metres located in Meiziya Village, Xiaoxita, Yiling District, Yichang City, Hubei Province of the PRC for a property development project which comprises the development of the Yichang Three Gorges International Convention Centre (宜昌三峽國際會展中心), the Three Gorges State Guest House (宜昌三峽國賓館) and the Three Gorges State Guest Garden Commercial Property (宜昌三峽國賓花園商品房).

The Land shall be used for commercial, tourism, research centre and/or residential purposes in which the expiry dates of the Land Use Right would be on 28 December 2046 for commercial, tourism and convention purposes; and 28 December 2076 for residential purpose.

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6. BASIS OF VALUATION

Our valuation was conducted on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2011, **market value** is defined as "the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

7. INVESTIGATION AND ANALYSIS

Our investigation included discussions with members of the Management in relation to the development and prospect of the property development industry in China, and the development, operations and other relevant information of the Business Enterprise. In addition, we have made relevant inquiries and obtained further information and statistical figures regarding the economy and property development industry in China from external public sources as we considered necessary for the purpose of the valuation.

As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Business Enterprise provided to us by the Management and have considered such information and data as attainable and reasonable.

The valuation of the Business Enterprise requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the Business Enterprise;
- The financial condition of the Business Enterprise;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry, and market;
- Relevant licenses and agreements;

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- The business risks of the Business Enterprise such as the ability in maintaining competent technical and professional personnel; and

- Investment returns and market transactions of entities engaged in similar lines of business.

8. VALUATION METHODOLOGY

There are generally three accepted approaches to obtain the market value of the Business Enterprise, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

8.1 Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

The right transactions employed in analyzing indications of values need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

8.2 Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

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Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

8.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("equity and long term debt"). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity ("equity") and investors who lend money to the business entity ("debt"). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

8.4 Business Valuation

In the process of valuing the Business Enterprise, we have taken into account of the uniqueness of its operation and the nature of the property development industry it is participating. Also, we have considered the accessibility to available data and relevant market transactions in choosing among the valuation approaches.

The Income-Based Approach was not adopted because there was insufficient historical and forecasted financial information of the Business Enterprise, and a lot of assumptions would have to be made and the valuation could be largely influenced by any inappropriate assumptions made. The Asset-Based Approach was not adopted because it could not reflect the true market value of the Business Enterprise. We have therefore considered the adoption of the Market-Based Approach in arriving at the market value of the Business Enterprise.

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Under the Market-Based Approach, we have to determine the appropriate valuation multiple of comparable companies, in which we have considered price-to-sales, price-to-earnings, and price-to-book multiples. In this valuation, we have adopted the price-to-book multiple, which we considered as appropriate to value the Business Enterprise.

Several companies with similar business nature and operations as the Business Enterprise in the property development industry in China have been considered as comparable companies. The details of the comparable companies adopted were listed as follows:

Company Name	Stock Code	Listing Location	Price-to-Book Multiple
SOHO China Ltd	410.HK	Hong Kong	0.83
Central China Real Estate Ltd	832.HK	Hong Kong	1.04
Longfor Properties Co Ltd	960.HK	Hong Kong	2.22
Sino Harbour Property Group Ltd	1663.HK	Hong Kong	0.86
Fantasia Holdings Group Co Ltd	1777.HK	Hong Kong	0.81
China SCE Property Holdings Ltd	1966.HK	Hong Kong	0.91
Tian Shan Development Holdings Ltd	2118.HK	Hong Kong	1.16
Guangzhou R&F Properties Co Ltd	2777.HK	Hong Kong	1.26
Evergrande Real Estate Group Ltd	3333.HK	Hong Kong	1.34
Agile Property Holdings Ltd	3383.HK	Hong Kong	1.18
Greentown China Holdings Ltd	3900.HK	Hong Kong	1.16
Shenzhen Zhenye Group Co Ltd	000006.CH	China	1.84
Tianjin Guangyu Development Co Ltd	000537.CH	China	3.23
Zhongtian Urban Development Group Co Ltd	000540.CH	China	3.84
Jinke Properties Group Co Ltd	000656.CH	China	2.42
Yinyi Real Estate Co Ltd	000981.CH	China	2.44
RiseSun Real Estate Development Co Ltd	002146.CH	China	3.20
Poly Real Estate Group Co Ltd	600048.CH	China	2.28

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Lushang Property Co Ltd	600223.CH	China	3.63
Beijing Vantone Real Estate Co Ltd	600246.CH	China	1.32
Tianjin Reality Development Group Co Ltd	600322.CH	China	0.97
Huafa Industrial Co Ltd Zhuhai	600325.CH	China	1.05
Gemdale Corp	600383.CH	China	1.33
China Enterprise Co Ltd	600675.CH	China	1.45
Guangzhou Pearl River IND	600684.CH	China	3.38
Jiangsu Phoenix Property Investment Co Ltd	600716.CH	China	2.12
Huayuan Property Co Ltd	600743.CH	China	2.20
Winsan Shanghai Industrial Corp Ltd	600767.CH	China	3.42
		Median:	**1.39**

Source: Bloomberg

The price-to-book multiple adopted was the median of the price-to-book multiples of all the comparable companies listed above as at the Date of Valuation, which was 1.39. Afterwards, we applied the median price-to-book multiple to the book value of equity of the Business Enterprise, with reference to the unaudited pro-forma consolidated financial statements of the Business Enterprise as at the Date of Valuation. We then obtained the market value of the Business Enterprise by taking into consideration of appropriate marketability discount and control premium.

8.4.1 Marketability Discount

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. We adopted a marketability discount of 30% with reference to an internationally recognized research article "Why Is the Value of Minority Stock Discounted So Heavily" by LarsonAllen, an international professional service firm with more than fifty years of experience in accounting, consulting and advisory, in arriving at the market value of the Business Enterprise as at the Date of Valuation.

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8.4.2 Control Premium

In addition, as we are considering the market value of the Business Enterprise from the perspective of controlling interest, a control premium has been adopted to reflect the higher marketability of a controlling interest compared to a minority interest. With reference to Mergerstat Control Premium Study (from 1st quarter 2012 to 4th quarter 2012) for real estate industry conducted by FactSet Mergerstat, LLC., an international information provider related to merger and acquisition, we adopted a control premium of 29.10% to arrive at the market value of the Business Enterprise.

9. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Business Enterprise operates or intends to operate would be officially obtained and renewable upon expiry;

- There will be sufficient supply of technical staff in the industry in which the Business Enterprise operates, and the Business Enterprise will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Business Enterprise operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Business Enterprise; and

- Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailing.

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10. INFORMATION REVIEWED

Our opinion requires consideration of relevant factors affecting the market value of the Business Enterprise. The factors considered included, but were not necessarily limited to, the following:

- Business nature of the Business Enterprise;
- Business licenses of the Business Enterprise;
- Financial statements of the Business Enterprise;
- Market trends of the property development industry in China;
- General descriptions in relation to the Business Enterprise; and
- Economic outlook in China.

We have discussed the details with the Management. We have also conducted research from various sources to verify the reasonableness and fairness of information provided and we believe that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied on such information to a considerable extent in arriving at our opinion of value.

11. LIMITING CONDITIONS

The valuation reflects the facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

We would particularly point out that our valuation was based on the information such as the company background, business nature and market share of the Business Enterprise provided to us.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

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We have relied on the historical and/or prospective information provided by the Management and other third parties to a considerable extent in arriving at our opinion of value. The information has not been audited or compiled by us. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We assumed that the Management is competent and perform duties under the company regulation. Also, ownership of the Business Enterprise was in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the business as well as the market value of the Business Enterprise.

We have not investigated the title to or any legal liabilities of the Business Enterprise and have assumed no responsibility for the title to the Business Enterprise valued.

Our conclusion of the market value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors, management and shareholders of the Company, and Singapore Exchange Securities Trading Limited in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.

No change to any item in any part of this report shall be made by anyone except Roma Appraisals. We have no responsibility for any such unauthorized change. Neither all nor any part of this report shall be disseminated to the public through any means of communication or referenced in any publications, including but not limited to advertising, public relations, news or sales media.

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This report may not be reproduced, in whole or in part, and utilized by any third parties for any purpose, without the written consent and approval of Roma Appraisals.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required. The title of this report does not pass to the Company until all professional fee has been paid in full.

12. REFERENCES

The list of sources of information cited in this report is stated as follows:

- Bloomberg;
- EpochTimes;
- International Monetary Fund; and
- National Bureau of Statistics of China.

13. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Hong Kong Dollars (HKD). The exchange rate adopted in the valuation was approximately 1 RMB = 1.2439 HKD, which was the prevailing exchange rate as at the Date of Valuation.

We hereby confirm that we have neither present nor prospective interests in the Company, the Business Enterprise, their holding companies, subsidiaries and associated companies, or the values reported herein.

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14. OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, the market value of 100% equity interest in the Business Enterprise as at the Date of Valuation, in our opinion, was reasonably stated as **HKD 1,055,000,000 (HONG KONG DOLLARS ONE BILLION AND FIFTY FIVE MILLION ONLY)**.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

Kelvin Luk	**Alan W K Lee**
CVA	*BCom (Property) MFin*
Director	*AAPI CPV CPV (Business)*
	Associate Director

Notes:

Mr. Luk is a member of the International Association of Consultants, Valuators and Analysts (IACVA). He has over eight years of experience in business valuation and consultation.

Mr. Lee is a Certified Practising Valuer (Business) of Australian Property Institute. He has over five years of experience in business valuation and consultation.

CHINA INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda)
(Company Registration Number 23356)

NOTICE OF SPECIAL GENERAL MEETING

All capitalised terms used in this Notice which are not defined herein shall have the same meanings ascribed to them in the Circular.

NOTICE IS HEREBY GIVEN that a Special General Meeting ("**SGM**") of China International Holdings Limited ("**Company**") will be held at 9.30 a.m. on 12 August 2013 at Marquis Room, Level 2 Copthorne King's Hotel, 403 Havelock Road, Singapore 169632, for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution:

Ordinary Resolution:

SHAREHOLDERS' APPROVAL FOR THE PROPOSED ACQUISITION

That:

(a) the Proposed Acquisition entered into between the Company and the Vendor (as set out in the circular dated 24 July 2013 issued by the Company to the Shareholders (the "**Circular**")), being a very substantial acquisition for the purposes of Chapter 10 of the Listing Manual ("**Chapter 10**") is hereby approved and confirmed; and

(b) the directors of the Company and each of them be and is hereby authorised to complete and do all such acts and things (including but not limited to the execution of all such agreements and documents as may be required) as they/he/she may consider necessary, desirable, expedient or in the interests of the Company to give effect to this Ordinary Resolution as they or he may deem fit.

BY ORDER OF THE BOARD

Shan Chang
Non-Executive Chairman

24 July 2013

Notes:

Unless The Central Depository (Pte) Limited ("**CDP**") specifies otherwise in a written notice to the Company, CDP shall be deemed to have appointed as CDP's proxies to vote on behalf of CDP at the SGM each of the Depositors who are individuals and whose names are shown in CDP's records as at a time not earlier than forty-eight (48) hours prior to the time of the SGM. Therefore, Depositors who are individuals can attend and vote at the SGM without the lodgement of any Depositor Proxy Form (as defined below).

A Depositor registered and holding Shares through CDP who is an individual but is unable to attend the SGM personally and wishes to appoint a nominee to attend and vote on his/her behalf as CDP's proxy must complete, sign and return the proxy form which is despatched together with this Circular to Depositors ("**Depositor Proxy Form**") completed by CDP in accordance with the instructions printed thereon and deposit the duly completed Depositor Proxy Form at the office of the Company's Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time appointed for holding the SGM. Similarly, a Depositor who is a corporation and who wishes to attend the SGM must submit the Depositor Proxy Form for the appointment of nominees(s) to attend and vote at the SGM on its behalf as CDP's proxy.

If a Shareholder who is not a Depositor is unable to attend the SGM and wishes to appoint a proxy to attend and vote at the SGM in his stead, then he should complete and sign the proxy form despatched to Shareholders who are not Depositors ("**Shareholder Proxy Form**") and deposit the duly completed Shareholder Proxy Form at the office of the Company's Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time appointed for holding the SGM. Such proxy need not be a member of the Company.

To be effective, the Depositor Proxy Form or the Shareholder Proxy Form must be deposited by a Depositor or a Shareholder (as the case may be) at the office of the Company's Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, no later than 9.30 a.m. on 10 August 2013.

The completion and return of the Depositor Proxy Form or the Shareholder Proxy Form will not prevent him from attending and voting in person at the SGM if he wishes to do so, in place of his/her/its proxy.