China International Holdings Limited

中 翔 國 際 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)
(Bermuda Company Registration No. 23356)

EMPHASIS OF MATTER BY INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

In compliance with Rule 704(5) of the Listing Manual, the Board of Directors of China International Holdings Limited ("**Company**") would like to announce that the Company's Auditors, Nexia TS Public Accounting Corporation (the "**Auditors**"), have included an emphasis of matter in their report (the "**Independent Auditors' Report**") in respect of the Company's financial statements for the financial year ended 31 December 2016 (the "**Financial Statements**").

A copy of the Independent Auditors' Report together with the extract of the relevant notes to the Financial Statements is annexed to this announcement.

BY ORDER OF THE BOARD
CHINA INTERNATIONAL HOLDINGS LIMITED

Shan Chang
Chairman

4 April 2017

Independent Auditor's Report to the Members of China International Holdings Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying financial statements of China International Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 13 to 99.

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 the International Financial Reporting Standards ("IFRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for professional Accountants* ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 to the financial statements which indicates that as of 31 December 2016, the Group's current borrowings exceeds its non-restricted cash and bank balances by RMB3,164,000. As disclosed in Notes 3 and 33(b) to the financial statements, the Group announced that its 55% owned subsidiary Yichang Xinshougang Property Development Company Limited ("XSG") has on 24 March 2017 received a Notice of Court from the Yichang City Intermediate Court to attend a Court hearing in respect of a claim for repayment of loan and accrued interest, amounting to approximately RMB157,000,000, initiated by Yiling District Urban Infrastructure Investment Company. As stated in Note 3 to the financial statements, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matters (Cont'd)

Disposal of subsidiary
(Refer to Notes 7(b),18 and 25 to the financial statements)

Risk:

On 19 December 2016, the Group completed the sales of Tianjin CIHL Xinzhong Real Estate Development Co., Limited, a wholly-owned subsidiary of the Group and recognised a gain on disposal amounting to RMB130,056,000. The disposal was considered a major transaction to the Group given the significance of the gain to the overall consolidated financial statements.

Our response:

In obtaining sufficient audit evidence, the following procedures performed:

- Reviewed management's calculation on gain on disposal by reconciling the consideration to the Sales and Purchase Agreement ("SPA") and bank transactions, and by verifying the net assets disposed to the underlying accounting records.
- Reviewed the SPA and verified whether the gain on disposal was calculated in accordance with the relevant clauses.
- Reviewed management's disclosures in the consolidated financial statements.

Our findings:

We found that the calculations by management are reasonable and the disclosures in the consolidated financial statements are appropriate.

Valuation of construction in progress
(Refer to Notes 10 and 14 to the financial statements)

Risk:

The Group is currently in the process of constructing a convention centre at Hubei, China. During the financial year ended 31 December 2016, an impairment of RMB3,768,000 was made in view of the current economic climate and the progress of construction. The convention centre is carried at RMB148,000,000 as at 31 December 2016. The impairment made is based on the valuation performed by an independent valuer which involves estimating the fair value less cost of disposal net of the estimated cost to complete and relevant margin. The valuation process involves significant judgement in determining the appropriate valuation methodologies to be used, and in estimating the underlying assumptions to be applied. Amongst other matters, inputs and assumptions used in valuation include, but not limited to, estimated selling price, budgeted construction costs and discount rate where a change in the assumptions can have a significant impact to the valuation.

Our response:

In obtaining sufficient audit evidence, the following procedures were carried out:

- Evaluated the objectivity, independence and expertise of the independent valuer.

Key Audit Matters (Cont'd)

Valuation of construction in progress (Cont'd)

Our response: (Cont'd)

In obtaining sufficient audit evidence, the following procedures were carried out: (Cont'd)

- Critically evaluated whether the valuation methodology used to determine the recoverable amount of convention centre complies with the requirements of IAS 36 *Impairment of Assets.*
- Challenged the appropriateness of the inputs and assumptions used such as estimated selling prices and discount rate by comparing them against publically available market information. When the inputs and rates were outside the expected range, further discussion were held with the valuer and management.
- Reviewed management's disclosures in the consolidation financial statements.

Our findings:

We found the valuer to be objective and competent. The valuation methodology used are in line with generally accepted market practices and the estimates and assumptions used in the valuation methodology are within a reasonable range of our expectations. We also found the disclosures in the consolidation financial statements are appropriate.

Recoverability of goodwill arising on consolidation
(Refer to Note 17 to the financial statements)

Risk:

Goodwill of RMB20,303,000 has been recognised in the consolidated statement of financial position as a result of obtaining control over CIHL (Tianjin) Water Development Co., Limited on 1 October 2010. The recoverable amount of goodwill has to be reviewed annually regardless of whether there is any indication of impairment. The Group has determined the recoverable amount of goodwill, through water supply service cash-generating unit ("CGU") of which the goodwill belongs. The recoverable amount of goodwill is highly dependent on management's forecasts and estimates which include, but not limited to, discount rate, growth rate, budgeted gross margin and revenue.

Our response:

In obtaining sufficient audit evidence, the following procedures were carried out:

- With the assistance of our internal valuation specialist, critically evaluated whether the model used by management to determine the recoverable amount of goodwill complies with IAS 36 *Impairment of Assets* and assessed the reasonableness of the long-term growth rate and discount rate used.
- Analysed the future projected cash flows used in the model to determine whether they are reasonable and supportable given the current economic climate and expected future performance of the CGU.
- Evaluated the reasonableness and challenged the appropriateness of key assumptions used by the management, by comparing them against historical forecasts and performance, as well as publicly available market data.
- Performed sensitivity analysis against the key assumptions used.
- Reviewed management's disclosures in the consolidated financial statements.

Key Audit Matters (Cont'd)

Recoverability of goodwill arising on consolidation (Cont'd)

<u>Our findings:</u>

The valuation methodology used are in line with generally accepted market practices and the estimates and assumptions used in the valuation model are within a reasonable range of our expectations. We also found the disclosures in the consolidated financial statements are appropriate.

Valuation of development properties
(Refer to Notes 10 and 21 to the financial statements)

<u>Risk:</u>

The Group has significant residential development properties in Hubei, China, which comprise of properties held for sale and properties under development of approximately RMB250,554,000 and RMB645,193,000 respectively. During the financial year ended 31 December 2016, a write down of RMB58,332,000 were made to certain development properties to its net realisable value. The net realisable value determined is based on the valuation performed by an independent valuer and highly dependent on Group's expectations of future selling prices, estimated cost to complete and estimated costs necessary to make the sale. However, weaken demand arising from a challenging economic climate in China, might provide further pressure on transaction volumes and properties prices in the China's property market. Therefore, greater level of audit efforts required in respect of the assumptions and estimates used in arriving the net realisable value of these properties.

<u>Our response:</u>

In obtaining sufficient audit evidence, the following procedures were carried out:

Properties held for sale
- Evaluated the reasonableness of estimated selling prices and estimated cost necessary to make the sale by comparing them against historical data and publicly available market information.

Properties under development
- Challenged the appropriateness of key assumptions used such as estimated selling prices, estimated cost to complete and estimated costs necessary to make the sale by comparing them against comparable historical data and publically available market information.
- Evaluated the reasonableness of estimated cost to complete by comparing the cost incurred to date to management's budget and where the works were contracted to third parties, reviewed and agreed to the contracts.

Overall
- Evaluated the objectivity, independence and expertise of the independent valuer.
- When the inputs and rates were outside the expected range, further discussion were held with the valuer and management.
- Reviewed management's disclosures in the consolidated financial statements.

Key Audit Matters (Cont'd)

Valuation of development properties (Cont'd)

Our findings:

We found the valuer to be objective and competent. The valuation methodology used are in line with generally accepted market practices and the estimates and assumptions used are within a reasonable range of our expectations. We also found the disclosures in the consolidated financial statements are appropriate.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Cont'd)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Cont'd)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditor's report is Philip Tan Jing Choon.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants

Singapore
4 April 2017

3. Material uncertainty related to going concern

In assessing the appropriateness of the use of going concern assumption in preparing the financial statements, the directors considered the following matters:

a) As at 31 December 2016, the Group has current borrowings of RMB149,563,000 (2015: RMB424,891,000) due within twelve months from the end of reporting period with non-restricted cash and bank balances of RMB146,399,000 (2015: RMB15,878,000).

b) As disclosed in Note 33(b) to the financial statements, the Group announced that its 55% owned subsidiary Yichang Xinshougang Property Development Company Limited ("XSG") has on 24 March 2017 received a Notice of Court from the Yichang City Intermediate Court to attend a Court hearing in respect of a claim for repayment of loan and accrued interest, amounting to approximately RMB157,000,000, initiated by Yiling District Urban Infrastructure Investment Company.

c) As disclosed in Note 32 to the financial statements, the Company has announced a special tax-exempt dividend of 30 Singapore cents, which approximate to RMB1.46 per ordinary shares for the financial year ended 31 December 2016 will be recommended at the forthcoming Annual General Meeting ("AGM") on 28 April 2017 for shareholders' approval. Upon the approval of the special tax-exempt dividend at the forthcoming AGM, the Company is expected to incur additional cash outflow of approximately RMB75,000,000 (excluding related expenses).

The above factors may continue to add pressure to the Group's operating cash flows.

Notwithstanding the above, in ensuring sufficient and adequacy of funds to meet its debt obligations, payments of dividends, legal claims (if any) and working capital, the following measures have been considered or are in the process of being put in place by management:

(i) The directors proposed to implement a scrip dividend scheme which will allow the shareholders to elect to receive fully paid new ordinary shares in lieu of part only or all the cash amount of the dividend (Note 36);

(ii) The Group has available land use rights and properties under development that can be mortgaged for additional borrowings to enable the Company and the Group to have sufficient cash available to cover the Company's and the Group's cash flow requirement;

(iii) The Group is also in the process of negotiating with certain financial institutions to obtain new banking facilities. The management have evaluated all the relevant facts available to them and are of the opinion that the Group have good tracks records or relationships with financial institutions which enhance the Group's ability to obtain new credit facilities to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future;

(iv) As disclosed in Note 33(b) to the financial statements, based on the preliminary legal opinion from PRC solicitors and the undertaking from China Resources and Transportation Group Limited, the directors are of the opinion that no provision is required to be made in the financial statements as at 31 December 2016; and

(v) The Group is able to continue in the current operational existence to generate sufficient cash flows to discharge their liabilities in the normal course of business for the next twelve months.

3. Material uncertainty related to going concern (Cont'd)

The above events and conditions indicate the existence of material uncertainty that may cast significant doubt on the Company's and Group's ability to continue as a going concern, which highly dependent on the successful implementation of measures considered. The directors have considered the feasibility of the above measures and the use of going concern assumption in preparing the financial statements remains appropriate.

If the Company and the Group are unable to continue their operational existence and/or unable to maintain their credit facilities, the Company and the Group may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts which they are currently recorded in the statement of financial position. In addition, the Company and the Group may have the reclassify non-current assets and liabilities as current assets and liabilities respectively. The financial statements do not include any adjustment which may arise from this uncertainty.

33. Contingent liabilities (Cont'd)

(b) On 28 March 2017, the Group announced that its 55% owned subsidiary Yichang Xinshougang Property Development Company Limited ("XSG") has on 24 March 2017 received a Notice of Court from the Yichang City Intermediate Court (the "Notice") to attend a Court hearing in respect of a claim for repayment of loan and accrued interest, amounting to approximately RMB157,000,000, initiated by Yiling District Urban Infrastructure Investment Company ("YDUIIC"). The remaining 45% interests of XSG is owned by Shu Ren Wood (Shenzhen) Limited, an indirect subsidiary of China Resources and Transportation Group Limited ("CRTGL"), a listed entity in Hong Kong.

Under a Cooperation Agreement entered into between the Yichang Government and XSG on 18 August 2006, the Yichang Government had awarded a sum of approximately RMB105,000,000 to XSG ("Award Sum") to partially fund the payment for the purchase of the land use rights for the development project in Meiziya (Note 21). The Award Sum was received by XSG from YDUIIC, instead of Yichang Government on 31 December 2006. YDUIIC is a state-owned entity by the Yichang Government. XSG then utilised the Award Sum for the payment of the land use rights.

On 15 September 2012, the Company entered into a share transfer agreement with CRTGL to acquire 55% interests in XSG. As part of the share transfer agreement, CRTGL had undertaken it shall be responsible for any claims by the PRC government in relation to the Award Sum ("CRTGL Undertaking").

Based on the preliminary legal opinion from the PRC solicitors, the Company is of the view that XSG has reasonable grounds to defend the claim initiated by YDUIIC and has instructed PRC solicitors to defend the claim accordingly.

Based on the preliminary legal opinion from the PRC solicitors and the undertaking from CRTGL, the directors are of the opinion that no provision is required to be made in the financial statements as at 31 December 2016.