THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **China Investments Holdings Limited**, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities, or other agent through whom the sale or transfer was effected, for transmission to the purchaser(s) or the transferee(s).

CHINA INVESTMENTS HOLDINGS LIMITED
中國興業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 132)

(1) MAJOR TRANSACTION CAPITAL CONTRIBUTION TO A PRC CIVIL EXPLOSIVES MANUFACTURER (2) POTENTIAL MAJOR DISPOSAL IN RELATION TO THE EXERCISE OF SALE OPTION AND (3) NOTICE OF SECOND SPECIAL GENERAL MEETING OF 2018

A letter from the Board is set out on pages 5 to 20 of this circular.

A notice convening the Second SGM to be held at the Luxembourg Room, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 25 May 2018 at 10:50 a.m. (or such time immediately following the conclusion (or adjournment) of the first special general meeting of 2018 of the Company to be held on the same day and at the same place, whichever is later) is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you are able to attend and/or vote at the Second SGM in person, you are requested to complete the enclosed form of proxy and return it to the Company's principal place of business at Unit 501, Wing On Plaza, 62 Mody Road, Tsimshatsui, Kowloon, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the Second SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the Second SGM or any adjournment thereof (as the case may be) should you so wish.

9 May 2018

* *For identification purpose only*

CONTENTS

DEFINITIONS

In this circular, unless the context requires otherwise, the following terms have the meanings as respectively ascribed below:–

"Board"	the board of Directors of the Company
"Business Day(s)"	any day(s) other than Saturday(s), Sunday(s) and statutory holiday(s) of the PRC
"Capital Contribution"	the contribution of RMB130,333,102.44 and RMB5,319,718.47 to the capital of the Target Company respectively by Nanhai Canmanage and Nanhai Lianhua pursuant to the terms of the Capital Contribution Agreement
"Capital Contribution Agreement"	the capital contribution agreement dated 28 March 2018 entered into amongst Nanhai Canmanage, Nanhai Lianhua, Nanhai Chemical and the Target Company in relation to the Capital Contribution
"Company"	China Investments Holdings Limited（中國興業控股有限公司*）, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 132)
"Conditions"	conditions to capital contribution by Nanhai Canmanage to the Target Company under the Capital Contribution Agreement, as described under the section headed "*The Capital Contribution Agreement – Conditions to the capital contribution by Nanhai Canmange to the Target Company*" in the letter from the Board of this circular
"Director(s)"	the director(s) of the Company
"Effective Date"	the date on which the Capital Contribution Agreement takes effect, which shall be the date on which the Capital Contribution is approved by Nanhai PAO or the date on which the Capital Contribution Agreement and the transactions of the Group contemplated thereunder are approved by the shareholders of Nanhai Canmanage and/or the Company (whichever is the later)

"Gaoyao"	Guangdong Tiannuo Civil Explosives Co., Ltd. Gaoyao Branch*（廣東天諾民爆有限公司高要分公司）, a branch of the Target Company in the Gaoyao District of the PRC
"Group"	the Company and its subsidiaries
"Hingning"	Guangdong Tiannuo Civil Explosives Co., Ltd. Hingning Branch*（廣東天諾民爆有限公司興寧分公司）, a branch of the Target Company in the Hingning District of the PRC
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	7 May 2018, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Meixian"	Guangdong Tiannuo Civil Explosives Co., Ltd. Meixian Branch*（廣東天諾民爆有限公司梅縣分公司）, a branch of the Target Company in the Meixian District of the PRC
"Nanhai Canmanage"	Foshan City Nanhai Canmanage Investments Holdings Limited*（佛山市南海康美投資有限公司）, a wholly foreign owned enterprise incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
"Nanhai Chemical"	Guangdong Nanhai Chemical Factory Co., Ltd.*（廣東省南海化工總廠有限公司）, a company incorporated in the PRC with limited liability and a wholly owned subsidiary of Nanhai Lianhua
"Nanhai Lianhua"	Foshan City Nanhai District Lianhua Asset Operation & Management Co., Ltd.*（佛山市南海區聯華資產經營管理有限公司）, a wholly State-owned company incorporated in the PRC with limited liability

"Nanhai PAO"	Office of Nanhai District of Foshan City Public Assets Administration Commission*（佛山市南海區公有資產管理辦公室）
"PBOC"	The People's Bank of China*（中國人民銀行）
"percentage ratio"	has the meaning ascribed to it under the Listing Rules
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong and the Macau Special Administrative Region of the People's Republic of China and Taiwan
"RMB"	Renmenbi, the lawful currency of the PRC
"Sale Option"	has the meaning ascribed to it under the section headed "*The Capital Contribution Agreement – Non-satisfaction of the Conditions and the Sale Option*" in the letter from the Board of this circular
"SFO"	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
"Second SGM"	the second special general meeting of 2018 of the Company to be held at Luxembourg Room, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 25 May 2018 at 10:50 a.m. (or such time immediately following the conclusion (or adjournment) of the first special general meeting of 2018 of the Company to be held on the same day and at the same place, whichever is later) to consider and, if thought fit, approve the Capital Contribution Agreement, the transactions of the Group contemplated thereunder, and the exercise of the Sale Option
"Shareholder(s)"	Shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Supplier Target"	Guangdong Nanhong Chemical Co., Ltd.* (廣東南虹化工有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Nanhai Chemical
"Target Company"	Guangdong Tiannuo Civil Explosives Co., Ltd.* (廣東天諾民爆有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Nanhai Chemical as at the Latest Practicable Date
"Target Group"	the Target Company, Gaoyao and the Supplier Target
"%"	per cent

* *For identification purposes only*

CHINA INVESTMENTS HOLDINGS LIMITED
中國興業控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code: 132)

Executive Directors:
He Xiangming *(Chairman of the Board)*
Lin Pingwu *(Managing Director)*
You Guang Wu *(Director)*
Huang Zhihe *(Deputy Managing Director)*
Wang Xin *(Deputy Managing Director)*

Independent Non-executive Directors:
Chan Kwok Wai
Chen Da Cheng
Deng Hong Ping

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

9 May 2018

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
CAPITAL CONTRIBUTION TO
A PRC CIVIL EXPLOSIVES MANUFACTURER
AND
POTENTIAL MAJOR DISPOSAL IN RELATION TO
THE EXERCISE OF SALE OPTION**

INTRODUCTION

Reference is made to the announcement of the Company dated 28 March 2018 in relation to the entering into of the Capital Contribution Agreement among Nanhai Canmanage (a wholly-owned subsidiary of the Company), Nanhai Lianhua, Nanhai Chemical and the Target Company for the Capital Contribution and the acquisition of the Supplier Target by the Target Company thereafter. Pursuant to the Capital Contribution Agreement, Nanhai Canmanage has agreed to contribute an amount of RMB130,333,102.44 to the capital of the Target Company, for 49% of the enlarged equity interests of the Target Company.

The purpose of this circular is to provide you with, among other things, (i) further information on the Capital Contribution Agreement and the Capital Contribution; and (ii) a notice of the Second SGM together with the proxy form and other information as required under the Listing Rules.

THE CAPITAL CONTRIBUTION AGREEMENT

Set out below is a summary of the principal terms of the Capital Contribution Agreement:

Date:

28 March 2018 (after trading hours)

The Capital Contribution Agreement will take effect on the Effective Date, being the date on which the Capital Contribution is approved by Nanhai PAO or the date on which the Capital Contribution Agreement and the transactions of the Group contemplated thereunder are approved by the shareholders of Nanhai Canmanage and/or the Company (whichever is the later).

Parties:

(1) Nanhai Canmanage;

(2) Nanhai Lianhua;

(3) Nanhai Chemical; and

(4) the Target Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Target Company, Nanhai Chemical, Nanhai Lianhua and their ultimate beneficial owners are considered third parties independent of the Group and its connected persons.

The Capital Contribution

Pursuant to the terms of the Capital Contribution Agreement, Nanhai Canmanage and Nanhai Lianhua will respectively contribute an amount of RMB130,333,102.44 (of which RMB10,000,000 will be contributed to the registered capital of the Target Company and the remaining to its capital reserve) and RMB5,319,718.47 to the capital of the Target Company (of which RMB408,163.27 will be contributed to the registered capital of the Target Company and the remaining to its capital reserve), in return for 49% and 2% of the enlarged equity interests in the Target Company respectively. The equity-holding structure of the Target Company after the Capital Contribution is illustrated below:

Shareholder(s) of the Target Company	Equity-holding before the Capital Contribution	Equity-holding after the Capital Contribution
Nanhai Canmanage	–	49%
Nanhai Lianhua	–	2%
Nanhai Chemical	100%	49%

It is expected that approximately RMB70,000,000 of the capital contribution to be made by Nanhai Canmanage will be funded through external loan financing and the remaining RMB60,333,102.44 will be funded through internal resources of the Group.

The Capital Contribution will principally be used for the acquisition of the Supplier Target by the Target Company from Nanhai Chemical as set out in the section headed "*The Capital Contribution Agreement – Acquisition of the Supplier Target by the Target Company*" below, and other purposes in line with the Target Company's business object.

The amount of consideration to be paid by the Target Company to Nanhai Chemical for the acquisition of the Supplier Target will be the value of the total shareholders' equity in the Supplier Target as at 31 December 2017 (being RMB149,361,528.07) determined with reference to an independent valuation prepared by an independent valuer in the PRC. The acquisition of the Supplier Target by the Target Company is expected to be completed within 90 Business Days following completion of the Capital Contribution.

Basis of determining the amount of the capital contribution to be made by Nanhai Canmanage

The amount of the capital contribution to be made by Nanhai Canmanage was determined after arm's length negotiations amongst the parties to the Capital Contribution Agreement with reference to, among others:

(1) the historical financial results and the net asset value of the Target Group as at 31 December 2017;

(2) the price-to-earnings ratio of comparable companies engaged in the manufacturing and distribution of civil explosives in the PRC as summarized below; and

(3) the benefits to be derived by the Group from the entering into of the Capital Contribution Agreement as described under the paragraph headed "*Reasons for and benefits of the entering into of the Capital Contribution Agreement*" below.

The following comparables were drawn from public information available as published by established corporations primarily engaged in civil explosives businesses in the PRC, similar to that of the Target Group, as at the date of the Capital Contribution Agreement:

Company	**Price-to-earnings ratio (approximate times)**[1]
Pizu Group Holdings Limited (8053.HK)	35.9
Hunan Nanling Industry Explosive Material Co Ltd (002096 CH)	62.6[2]
Guizhou Jiulian Industrial Explosive Material Development Co Ltd (002037 CH)	37.3[2]
Anhui Jiangnan Chemical Industry Co Ltd (002226 CH)	67.1[2]
Shanxi Tond Chemical Co Ltd (002360 CH)	19.2[2]
Sichuan Yahua Industrial Group Co Ltd (002497 CH)	39.2[2]
Guangdong Hongda Blasting Co Ltd (002683 CH)	22.0[2]
Anhui Leimingkehua Co Ltd (600985 CH)	23.3[2]
Average	**38.3**
Target Group	**19.7**[3]

Source: http://www.hkex.com.hk/, http://www.sse.com.cn/ and http://www.szse.cn/

Note:

1. Based on the profit attributable to owners of the company concerned as set out in the published latest financial data of such comparable companies up to the date of the Capital Contribution Agreement and their market capitalization on the date of the Capital Contribution Agreement.

2. Price-to-earnings ratio adjusted by a discount based on the ratio of approximately 28.4% being the percentage the average price-to-earnings ratio of Stock Exchange Main Board listed companies fell short of that of the Shanghai Stock Exchange listed A shares companies as at the date of the Capital Contribution Agreement.

3. Based on the capital contribution amount to the Target Company for 49% of the enlarged equity interests of the Target Company of approximately RMB130.3 million and the respective profit attributable to 49% of the Target Group for the year ended 31 December 2017.

Given the price-to-earnings ratio for the acquisition of the Target Group is considerably lower than that of the average of such comparables and taking into account the latest net profit position of the Target Group, the Directors are of the view that the capital contribution amount to be made by Nanhai Canmanage for 49% of the enlarged equity interests of the Target Company is fair and reasonable.

Timing for the Capital Contribution

Each of Nanhai Canmanage and Nanhai Lianhua will pay (i) 50% of their respective capital contribution amount to the Target Company within 25 Business Days after the Effective Date; and (ii) the remaining amount within 25 Business Days after completion of the industrial and commercial registration of changes, registering Nanhai Canmanage and Nanhai Lianhua as shareholders of the Target Company respectively.

Conditions to the capital contribution by Nanhai Canmanage to the Target Company

Capital contribution by Nanhai Canmanage is conditional upon satisfaction of certain Conditions. Major Conditions are summarised as follows:

(1) all relevant consents and approvals for the Capital Contribution having been obtained from governmental departments (including Nanhai PAO), the Target Company (including its board of directors and shareholder) and other parties;

(2) all necessary consents, authorisations and approvals for the Capital Contribution (including those required under the applicable laws, regulations and/or Listing Rules) having been obtained by Nanhai Canmanage and by the Company from internal and external authorities and persons (including their respective shareholders);

(3) the articles of association of the Target Company having been amended in accordance with the relevant terms of the Capital Contribution Agreement, and executed by Nanhai Canmanage, Nanhai Lianhua, Nanhai Chemical and the Target Company respectively;

(4) with regard the requisite PRC licences for the operation of the Target Group:

(a) the Target Company having obtained extension approvals and corresponding extended licences from the relevant governmental departments for the Civil Explosives Production Licence*（民用爆炸物品生產許可證）(valid until 29 July 2019) and the Production Safety Licence for Civil Explosives（民用爆炸物品安全生產許可證）(valid until 26 April 2018) before such licences expire; and

(b) the Supplier Target having obtained extension approvals and corresponding extended licences from the relevant governmental departments for the Guangdong Province Pollutants Discharge Permit*（廣東省排放污染物許可證）(valid until 4 June 2018) before such licence expires;

(5) Nanhai Chemical (as the shareholder of the Supplier Target) having passed the necessary shareholder's resolutions approving the transfer of Nanhai Chemical's 100% equity interests in the Supplier Target to the Target Company following completion of the Capital Contribution (as set out in the section headed "*The Capital Contribution Agreement – Acquisition of the Supplier Target by the Target Company*" below); and

(6) all procedures for the deregistration of Meixian required under the PRC laws having been completed before 31 December 2018.

As at the Latest Practicable Date, Condition (1) mentioned above had been fulfilled; the Production Safety Licence for Civil Explosives（民用爆炸物品安全生產許可證）mentioned at Condition 4(a) above has been renewed and is valid until 2 April 2021; application for the renewal of the Civil Explosives Production Licence*（民用爆炸物品生產許可證）as mentioned at Condition 4(a) above will commence in April 2019; and application for the renewal of the Guangdong Province Pollutants Discharge Permit*（廣東省排放污染物許可證）as mentioned at Condition 4(b) above is currently in progress.

Non-satisfaction of the Conditions and the Sale Option

If any one of the Conditions cannot be satisfied and Nanhai Canmanage has already made capital contribution to the Target Company pursuant to the terms of the Capital Contribution Agreement set out in the section headed "*The Capital Contribution Agreement – Timing for the Capital Contribution*", Nanhai Canmanage is entitled to terminate the Capital Contribution Agreement.

If the Capital Contribution Agreement is so terminated,

(1) the Target Company is required to, within 10 Business Days after such termination, return to Nanhai Canmanage all of the capital contribution amount paid by it (together with interest on such amount at a rate equivalent to the benchmark loan interest rate for an one-year loan offered by the PBOC plus 20%), in the event that the industrial and commercial registration of changes, registering Nanhai Canmanage and Nanhai Lianhua as new shareholders of the Target Company, has not been completed; or

(2) if the industrial and commercial registration of changes, registering Nanhai Canmanage and Nanhai Lianhua as new shareholders of the Target Company, has already been completed, Nanhai Canmanage may exercise its right to require Nanhai Chemical to acquire all its equity interests in the Target Company with a consideration equivalent to the capital contribution amount paid by Nanhai Canmanage (together with interest on such amount at a rate equivalent to the benchmark loan interest rate for an one-year loan offered by the PBOC plus 20%) ("**Sale Option**").

Pursuant to the Capital Contribution Agreement, the exercise of the Sale Option by Nanhai Canmanage is conditional upon all required approvals (if applicable) and laws having been obtained by Nanhai Canmanage and/or the Company. As the exercise of the Sale Option is expected to constitute a major transaction of the Company under the Listing Rules, relevant shareholders' approval will be sought from the Shareholders at the Second SGM for the exercise of such Sale Option pursuant to Rule 14.76(2) of the Listing Rules.

Acquisition of the Supplier Target by the Target Company

Within 90 Business Days following completion of the Capital Contribution, Nanhai Chemical is required to enter into an agreement with the Target Company for the transfer of its 100% equity interests in the Supplier Target (which should own the relevant land, factories, equipment and other necessary assets for the production of civil explosives) to the Target Company. The Capital Contribution and the acquisition of the Supplier Target by the Target Company are not conditional upon each other. However, if Nanhai Chemical fails to complete the aforementioned transfer within 90 Business Days following completion of the Capital Contribution, Nanhai Canmanage is also entitled to exercise the Sale Option and the Sale Option is expected to be exercised in such case.

Board Representation

Pursuant to the Capital Contribution Agreement, Nanhai Canmanage is entitled to nominate two directors to the board of the Target Company, which will consist of five directors in total.

Termination of the Capital Contribution Agreement

As described under the section headed "*The Capital Contribution Agreement – Non-satisfaction of the Conditions and the Sale Option*", Nanhai Canmanage may terminate the Capital Contribution Agreement if any one of the Conditions cannot be satisfied and Nanhai Canmanage has already made capital contribution to the Target Company.

The Capital Contribution Agreement may also be terminated by Nanhai Canmanage in case Nanhai Chemical and the Target Company fail to complete the change of industrial and commercial registration procedures in relation to the Capital Contribution due to reasons caused by Nanhai Chemical or the Target Company within 90 Business Days following the Effective Date, and if such failure is not remedied after a further 30 Business Days.

If the Capital Contribution Agreement is so terminated, the Target Company shall, within 10 Business Days after such termination, return to Nanhai Canmanage all of the capital contribution amount paid by it (together with interest on such amount at a rate equivalent to the benchmark loan interest rate for an one-year loan offered by the PBOC plus 20%).

INFORMATION ON THE TARGET COMPANY AND THE SUPPLIER TARGET

The Target Company, established in the PRC in 2008, is a State-owned manufacturer and distributor of porous granular ammonium oil explosives (多孔粒狀銨油炸藥), emulsion explosives (乳化炸藥) and industrial detonating cord (工業導爆索). The Target Company and Gaoyao operate in the Guangdong area of the PRC and holds the requisite PRC licences for its operations. The Target Company serves as a central management unit of the Target Group, while Gaoyao manufactures the explosive products as mentioned above and leases the whole of the civil explosive manufacturing plant and equipment from the Target Company's sister company, the Supplier Target.

As at the Latest Practicable Date, both the Target Company and the Supplier Target are wholly-owned by Nanhai Chemical, which in turn is wholly-owned by Nanhai Lianhua (a State-owned company).

According to the audited financial statements of the Target Company, Gaoyao and the Supplier Target, the financial results of each of (i) the Target Company and Gaoyao (on a combined basis) and (ii) the Supplier Target for the three years ended 31 December 2015, 2016 and 2017 were as follows:–

(i) The Target Company and Gaoyao (on a combined basis)

	For the year ended 31 December		
	2015	**2016**	**2017**
	(audited)	(audited)	(audited)
	RMB	*RMB*	*RMB*
Net profit before tax	21,912,000	3,453,000	20,006,000
Net profit after tax	16,267,000	2,385,000	15,005,000

Note 1: During the three years ended 31 December 2015, 2016 and 2017, the Target Company had two more branches in addition to Gaoyao, namely Hingning and Meixian. As at the Latest Practicable Date, the former has already been deregistered, and the deregistration of the latter is expected to be completed following completion of the Capital Contribution. Both Hingning and Meixian do not form part of the subject-matter of the Capital Contribution.

Note 2: During the three years ended 31 December 2015, 2016 and 2017, the Target Company, Gaoyao, Hingning and Meixian all had its own accounting books and records, and no combined accounts were available in respect of the aforementioned entities.

(ii) The Supplier Target

	For the year ended 31 December		
	2015	**2016**	**2017**
	(audited)	(audited)	(audited)
	RMB	*RMB*	*RMB*
Net profit/(loss) before tax	(3,207,000)	361,000	2,468,000
Net profit/(loss) after tax	(3,451,000)	(248,000)	1,851,000

The net asset value of (i) the Target Company and Gaoyao (on a combined basis) and (ii) the Supplier Target as at 31 December 2017 was RMB15,401,000 and RMB17,364,000 respectively.

The value of the total shareholders' equity in the Supplier Target (whose assets consist mainly of property) as at 31 December 2017 as indicated by an independent valuation prepared by an independent valuer in the PRC was RMB149,361,528.07.

The full accountants' report on the Target Company and Gaoyao, and on the Supplier Target are set out in Appendix II and III to this circular respectively. The Shareholders' attention is drawn to the disclaimer of opinion in respect of the accountants' report on the Target Company and Gaoyao, which was mainly due to the inability to obtain sufficient appropriate audit evidence in respect of certain historical results and financial positions of Meixian and Hingning, being the branch entities of the Target Company which will not be retained following the Capital Contribution. As a result, the reporting accountant was unable to provide an unqualified audit opinion with respect to the combined accounts of the Target Company and Gaoyao. The Directors have carefully considered and accepted the factors behind such qualifications in entering into of the Capital Contribution Agreement notwithstanding the same, given:

(1) Qualifications related to Hingning and Meixian

The reporting accountants' qualifications owing to its inability to obtain sufficient accounting records mainly relate to Hingning and Meixian which do not form part of the subject-matter of the Capital Contribution.

(2) De-registration of Hingning and Meixian

As Hingning was deregistered on 19 December 2017 while Meixian would be de-registered upon completion of the Capital Contribution, there will be no disclaimer opinion in this respect for future accounts following the Capital Contribution.

(3) Historical liabilities borne by the Target Company's respective shareholders

As agreed between the former shareholders of the Target Company, any liabilities of Meixian and Hingning before their deregistration would not be borne by the Target Company.

(4) Unqualified accountants' report on the Supplier Target

Such qualifications did not affect the accountants' report on the Supplier Target as set out in Appendix III to this circular which is unqualified in all respects.

The Directors had also noted the material uncertainty emphasized in the accountants' report of the Supplier Target that may cast significant doubt about the Supplier Target's ability to continue as a going concern if it does not have the financial support of its shareholders as its current liabilities exceeded its current assets for the three years ended 31 December 2015, 2016 and 2017. It was noted that notwithstanding such uncertainty the financial statements have been prepared on a going concern basis, that such emphasis does not constitute any qualification by the reporting accountants, that the accountants' report of the Supplier Target remains unqualified and that following completion of the Capital Contribution and the acquisition of the Supplier Target by the Target Company, the Supplier Target can expect to have the full financial support of the Target Company.

INFORMATION ON THE OTHER PARTIES TO THE CAPITAL CONTRIBUTION AGREEMENT

The Group is principally engaged in hotel investment, management and operation, property investments in both properties held for sale and investment properties, and wellness elderly care business. Through its joint ventures and associates, the Group also participates and invests in fast-growing sectors, including the electric utilities as well as financial leasing in the PRC. Nanhai Canmanage is a wholly-owned subsidiary of the Company and is principally engaged in property investment.

Nanhai Lianhua, a PRC State-owned enterprise, is principally engaged in State-owned assets operation and management in the PRC.

Nanhai Chemical, a company incorporated in the PRC with limited liability, is principally engaged in manufacturing chemicals and chemical products in the PRC.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE CAPITAL CONTRIBUTION AGREEMENT

According to the Civil Explosives Industry Development Plan (2016-2020)*（《民用爆炸物品行業發展規劃（2016-2020年）》）, it is the standing policy of the State to continually optimise, internationalise and enhance the competitiveness of the explosives industry. New licences for such businesses are considered a valued commodity. As a result, entry barriers are considered relatively high for this industry, giving rise to an oligopolistic market with substantial growth potential and promising returns.

As mentioned in the annual report of the Company for the year ended 31 December 2016, it is the Group's strategy to identify investment opportunities with potentials for long-term development to further gather the Group's momentum for sustainable business growth. Having considered the untapped potential of Target Group and the resources presently available to the Group, the Company believes that the Target Group and its business hold significant development potential in the civil explosives industry given the innate market advantages of an oligopolistic market, and the implementation of stringent cost control measures of the Target Group since 2017. The international exposure, established business networks and years of all-rounded business management experience of the Group could further enhance the operational efficiency of the Target Group and unlock the potential of its business, in line with the focused policies of the State related to such business. The Capital Contribution aligns with the Group's continuing efforts to invest in businesses with long-term development potential and return.

Furthermore, Mr. Huang Zhihe ("**Mr. Huang**"), one of the executive Directors of the Company, was a senior management in Nanhai Lianhua from July 2004 to December 2005. The Company considers that, coupled with the Board's ample experience in corporate and business management, Mr. Huang's work experience in the civil explosive industry will also enhance the Company's understanding and management of the Target Group's business.

With the on-going cost control measures taken by the Target Group, in particular restructuring measures to reduce cost in labour, procurement and production; and the experience of Mr. Huang, who will be acting as the senior management of the Target Company after the Capital Contribution, the Company believes that the Target Group has the potential of improved returns.

The Directors believe that the terms of the Capital Contribution Agreement and the transactions of the Group contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and its shareholders as a whole.

FINANCIAL EFFECTS OF THE CAPITAL CONTRIBUTION

Upon completion of the Capital Contribution, the Target Company will become a material associate of the Company and its financial results and assets and liabilities will be incorporated into the consolidated financial statements of the Group using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The unaudited pro forma financial information of the Group is set out in Appendix V to this circular.

Based on the unaudited pro forma financial information of the Group as set out in the Appendix V to this circular, and assuming the Capital Contribution had been completed on 31 December 2017 or 1 January 2017, as appropriate, the financial effects of the Capital Contribution on the Group are summarized as follows:

Earnings

According to the unaudited pro forma consolidated statements of comprehensive income of the Group for the year ended 31 December 2017, the profit of the Group for 2017 would increase from approximately HK$27.63 million to approximately HK$30.38 million. The Directors are of the view that the Capital Contribution would have a positive impact on the future financial performance of the Group.

Assets and liabilities

According to the unaudited pro forma consolidated statement of financial position of the Group as at 31 December 2017, the unaudited pro forma total assets of the Group would decrease from approximately HK$2,277.41 million to approximately HK$2,271.91 million and the unaudited pro forma total liabilities of the Group would remain unchanged as a result of the Capital Contribution.

The Properties

The Valuer has valued the properties and land use rights of the Supplier Target (the "**Properties**") as at 31 January 2018 at an aggregated amount of approximately RMB$159,251,000. Summary of values and the valuation certificates are set out in Appendix VI to this circular.

The table below sets forth the reconciliation between the carrying values of the Properties as at 31 December 2017 and the valuation report as set forth in Appendix VI to this circular as at 31 January 2018:

	Note	*RMB'000*
Carrying value of the Properties as at 31 December 2017	*1*	31,540
Less: Depreciation during the period from 1 January 2018 to 31 January 2018		278
Carrying value of the Properties as at 31 January 2018		31,262
Valuation surplus as at 31 January 2018		127,989
Market value of the Properties as at 31 January 2018	*2*	159,251

Notes:

1. The carrying value of the Properties as at 31 December 2017 amounting to RMB31,540,000 is comprised of properties amounting to RMB24,049,000 and land use rights amounting to RMB7,491,000 which are set out in Appendix III – Accountant's Report of the Supplier Target.

2. The market value of Properties as at 31 January 2018 amounting to RMB159,251,000 is set out in Appendix VI – Valuation Report on the Property Interest of the Supplier Target.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios in respect of the Capital Contribution Agreement and the transactions of the Group contemplated thereunder is more than 25% but less than 100%, the Capital Contribution Agreement and the transactions of the Group contemplated thereunder constitute a major transaction for the Company under Chapter 14 of the Listing Rules and are subject to the announcement, circular and shareholders' approval requirements under the Listing Rules.

The Sale Option granted to Nanhai Canmanage under the Capital Contribution Agreement constitutes an option under Rule 14.72 of the Listing Rules. As the exercise of the Sale Option is at the discretion of Nanhai Canmanage, pursuant to Rule 14.75(1) of the Listing Rules, on the grant of such option, only the premium will be taken into consideration for the purpose of transaction classification. As no premium is payable for the grant of the Sale Option to Nanhai Canmanage, such grant does not constitute a notifiable transaction of the Company.

The exercise of the Sale Option is expected to constitute a major transaction of the Company under the Listing Rules, relevant shareholders' approval will be sought from the Shareholders at the Second SGM for the exercise of the Sale Option pursuant to Rule 14.76(2) of the Listing Rules. The Company would make an announcement in accordance with the Listing Rules in the event that the Sale Option is exercised.

To the best of the knowledge and belief of the Directors having made all reasonable enquiry, no Shareholder has a material interest in the Capital Contribution Agreement and the transactions of the Group contemplated thereunder, including the exercise of the Sale Option, such that it must abstain from voting, and, accordingly, all Shareholders will be permitted to vote at the Second SGM.

SECOND SGM

A notice convening the Second SGM to be held at the Luxembourg Room, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 25 May 2018 at 10:50 a.m. (or such time immediately following the conclusion (or adjournment) of the first special general meeting of the Company to be held on the same day and at the same place, whichever is later) is set out on pages SGM-1 to SGM-2 of this circular. Ordinary resolution(s) will be proposed at the Second SGM to consider, and if thought fit, to approve the Capital Contribution Agreement, the transactions of the Group contemplated thereunder and the exercise of the Sale Option by way of poll.

Whether or not you are able to attend and/or vote at the Second SGM in person, you are requested to complete the enclosed form of proxy and return it to the Company's principal place of business at Unit 501, Wing On Plaza, 62 Mody Road, Tsimshatsui, Kowloon, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the Second SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the Second SGM or any adjournment thereof (as the case may be) should you so wish.

RECOMMENDATIONS

The Directors consider that the terms of the Capital Contribution Agreement and the transactions of the Group contemplated thereunder are on normal commercial terms, are fair and reasonable, and the entering into of the Capital Contribution Agreement and the transactions of the Group contemplated thereunder, including the exercise of the Sale Option, are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the Second SGM to approve the Capital Contribution Agreement and the transactions of the Group contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the financial and general information as set out in the appendices to this circular.

On behalf of
China Investments Holdings Limited
HE Xiangming
Chairman

* *For identification purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited financial information of the Group for each of the three years ended 31 December 2015, 2016 and 2017 are disclosed in the following annual reports of the Company for the years ended 31 December 2015, 2016 and 2017, respectively, which have been published and are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://chinainvestments.oceanwir.com):

- the annual report 2015 of the Company for the year ended 31 December 2015 which was published on 15 April 2016 (available on: http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0415/LTN20160415877.pdf), please refer to pages 27 to 103 in particular;

- the annual report 2016 of the Company for the year ended 31 December 2016 which was published on 20 April 2017 (available on: http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0420/LTN201704201313.pdf), please refer to pages 33 to 121 in particular; and

- the annual report 2017 of the Company for the year ended 31 December 2017 which was published on 18 April 2018 (available on: http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0418/LTN20180418892.pdf), please refer to pages 49 to 178 in particular.

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 March 2018, the Group had outstanding secured interest bearing bank loans of approximately HK$744,306,000 and an unsecured fixed interest bearing loan from its associate, immediate holding company and related companies of approximately HK$40,741,000, HK$111,111,000 and HK$86,420,000 respectively. In addition, the Group had outstanding convertible notes in the aggregate principal amount of HK$166,232,000 issued by the Company on 13 October 2014.

The Group has obtained a loan facility from a bank of approximately USD110,090,000 which a controlling shareholder has provided the necessary corporate guarantee. As at the close of business on 31 March 2018, the Group has drawn down USD70,000,000 of the loan facility.

Save as aforesaid or otherwise discussed herein, as at the close of business on 31 March 2018, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash and bank balances, other internal resources and available existing unutilised credit facilities and those under negotiation, the Group has sufficient working capital for its present requirements and to satisfy its requirements for at least the next 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group's multifaceted businesses are more resilient to sector-specific fluctuations in the economy, with diversified fields spanning from hotel investment, management and operation, property investments in both properties held for sale and investment properties and wellness elderly care business, and through its joint ventures and associates, fast-growing sectors, including the power plant, as well as financial leasing, in the PRC over the years.

Regarding the Group's hotel business, in order to adapt to market changes, Guilin Plaza Hotel has carried out a comprehensive renovation in business model, by joining as a franchisee of the James Joyce Coffetel owned by Plateno Group, and through comprehensive renovation work, the hotel business will be divided into two segments, namely hotel tourism and commercial leasing. Guilin Plaza Hotel has been closed from March to October in 2017 to carry out such work. Following the re-opening of the hotel with a brand-new look in November 2017, the Group's hotel business is expected grow gradually with improved performance.

Regarding the Group's property investment business, the continuous increase of occupancy rate of Zhongkong Tower is expected to bring continuous and steady income to the Group. In addition, the Group intents to invest in and develop property projects in the core region of the Pearl River Delta, increase its investments in properties with high appreciation potential and dispose of non-core properties with unsatisfactory yields.

Furthermore, the Group is cultivating its new wellness business and homestay accommodation businesses which have tremendous untapped potentials in the PRC.

In addition to the Capital Contribution, the Group has been actively identifying other investment opportunities, and will continue to look for investment projects with long-term development potential and steady income. The Group will continue to strive and seek out expansion opportunities through mergers and acquisitions and business formations in the same or other fields or sectors with a view to maintaining a strong focus to deliver solid returns for the Shareholders.

The following is the text of a report on the historical financial information of the Target Company and Gaoyao set out on pages II-1 to II-43 received from the Company's reporting accountants, HLM CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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2-12 Queen's Road West, Hong Kong.
香港皇后大道西2-12號聯發商業中心305室
Tel 電話: (852) 3103 6980
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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA INVESTMENTS HOLDINGS LIMITED

Dear Sirs,

Introduction

We report on the historical financial information of Guangdong Tiannuo Civil Explosives Co., Ltd*（廣東天諾民爆有限公司）(“Target Company”) set out on pages II-6 to II-43, which comprises the statements of financial position as at 31 December 2015, 2016 and 2017, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the three years ended 31 December 2017 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages II-6 to II-43 forms an integral part of this report, which has been prepared for inclusion in the circular of China Investments Holdings Limited (the “Company”) dated 9 May 2018 (the “Circular”) in connection with the proposed acquisition of the 49% equity interest in the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Company is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design 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. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

Disclaimer opinion in respect of the Historical Financial Information

Because of the significance of the matters described in the "basis of disclaimer opinion" paragraphs below, for the purpose of this report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Historical Financial Information of the Target Company.

Basis for disclaimer of opinion

No combination of two independently operating branches

The Target Company was established on 15 January 2008. According to the resolution of the shareholders' meeting of the Target Company on 12 December 2014, the three branches of the Target Company, namely Gaoyao, Meixian and Hingning, (together the "Branches"), managed and conducted their own operations independently and were liable for their own profits and losses. Gaoyao is managed by Guangdong Nanhai Chemical Industry Co., Ltd.*（廣東省南海化工總廠有限公司）("Nanhai Chemical") and Meixian is managed by Guangdong 401 Factory*（廣東四零一廠）("401 Factory") while Hingning is managed by Guangdong Huawei Chemical Industry Co. Ltd.*（廣東華威化工集團有限公司）("Huawei"). According to the legal opinion from the lawyers in the People's Republic of China (the "PRC"), the Branches of the Target Company are in fact operated and managed independently and the Target Company had no control over each of these Branches and the respective assets and liabilities of these Branches were entitled and borne by the respective shareholders. In addition, all these Branches reported and paid the corporate income tax independently.

As the Target Company and the Branches are deemed as one legal entity while the management and accounting personnel of the Target Company are not able to exert any control and management power over the Meixian and Hingning, the Target Company is unable to i) obtain Historical Financial Information of the Meixian and Hingning (including accounting record, audited financial statements, vouchers and relevant supporting document, etc.) and ii) manage and operate the Meixian and Hingning. The financial statements of the Target Company in previous years did not include the Meixian and Hingning. According to Hong Kong Accounting Standard 1 "Presentation of Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants, financial statements are to present the financial position and results of an entity. Based on such standard, the results and financial positions of Meixian and Hingning were required to be included in the Historical Financial Information on the basis that they were an integral part of the entity. However, as the financial information of the Meixian and Hingning are not included in the Historical Financial Information of the Target Company, we are unable to obtain sufficient and appropriate audit evidence to ascertain whether the results and financial position of the Target Company are free of material misstatement.

Contingent liabilities and commitments

According to the share transfer agreements signed on 6 February 2017 and the resolution of the shareholders' meeting of the Target Company, two shareholders, namely 401 Factory and Huawei, have transferred an aggregate of 49% equity interests to the substantial shareholder, Nanhai Chemical. According to the resolution, 401 Factory and Huawei undertook all the possible underlying liabilities of Meixian and Hingning branches. According to the legal opinion from the lawyers in the PRC, they are of view the resolution is legitimate and valid. Hence, the Target Company has the right to recourse to 401 Factory and Huawei for any liabilities which might arise before the deregistration of Meixian and Hingning branches. Hingning branch was deregistered on 19 December 2017 while the deregistration of Meixian branch has not yet been completed at the date of this Circular.

Due to the lack of complete books and records of Meixian branch, we are not able to obtain sufficient evidence and explanation to determine whether the contingent liabilities and commitments of Meixian branch have been properly recorded and accounted and are in compliance with the Hong Kong Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Asset". Without sufficient information, the contingent liabilities and commitments cannot be measured reliably. We are unable to carry out other procedures to ascertain whether there is material misstatement in the contingent liabilities and commitments and their effect on the Historical Financial Information.

The Discontinued operations

According to the share transfer agreements signed on 6 February 2017, two shareholders, namely 401 Factory and Huawei of the Target Company, had transferred an aggregate of 49% equity interests to the substantial shareholder, Nanhai Chemical. Meanwhile, the Target Company had decided to cease the operations in Meixian and Hingning and applied for deregistration. In this regard, Meixian and Hingning branches had discontinued their operations. The Hingning branch was deregistered on 19 December 2017 while the deregistration of the Meixian branch has not been completed at the date of this Circular. The Target Company possess the "Civil Explosives Production License*"(《民用爆炸物品生產許可證》) and the scope of production includes the production lines of three Branches in different places. Each branch in fact carried out civil explosives production operations independently. According to the sales and procurement arrangement of the Target Company, the explosives were directly delivered to end-users from the production plants of each branch and the delivery notes were kept in each branch but the sales were made in name of the Target Company.

According to Hong Kong Accounting Standard 18 "Revenue", sales of goods are recognized when the goods are delivered and the actual risks and rewards are transferred. As the delivery invoices were kept in each of the Branches and the Target Company was unable to obtain the books and records of the Meixian and Hingning branches, we are unable to obtain sufficient and appropriate audit evidence and there is no alternative audit procedure for us to ascertain the existence, cut-off, accuracy, valuation and completeness of the revenue, cost of sales, other relevant expenses and assets and liabilities balances of the two Branches for the years ended 31 December 2015, 31 December 2016 and 31 December 2017.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Information have been made.

Dividends

We refer to note 12 to the Historical Financial Information which provides details of dividends that had been paid by the Target Company in respect of the Relevant Periods.

HLM CPA Limited
Certified Public Accountants
Ng Fai Fiona
Practicing Certificate Number P4986
Hong Kong, 9 May 2018

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The statutory financial statements of the Target Company and Gaoyao for the Relevant Periods were prepared in accordance with the relevant accounting principles and regulations applicable in the People's Republic of China (the "PRC") and were audited by the following certified public accountants registered in the PRC:

Financial period	Name of auditors
For the year ended 31 December 2015	佛山中瑞誠會計師事務所有限公司
For the year ended 31 December 2016	佛山市中道會計師事務所
For the year ended 31 December 2017	廣東誠安信會計師事務所

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2015	**2016**	**2017**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Continuing operation				
Revenue	*6*	184,038	193,118	199,861
Cost of sales		(115,127)	(122,749)	(138,016)
Gross profit		68,911	70,369	61,845
Other income	*7*	262	289	311
Selling expenses		(8,814)	(19,312)	(16,920)
Administrative expenses		(40,331)	(42,050)	(29,520)
Finance costs	*8*	–	–	(218)
Profit before taxation		20,028	9,296	15,498
Income tax expense	*9*	(5,174)	(2,529)	(3,874)
Profit for the year from continuing operation	*11*	14,854	6,767	11,624
Discontinued operations				
Profit/(loss) for the year from discontinued operations	*10*	1,413	(4,382)	3,381
Profit for the year and other comprehensive income and attributable to owners of the Company		16,267	2,385	15,005

STATEMENTS OF FINANCIAL POSITION

		Year ended 31 December		
		2015	**2016**	**2017**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSET				
Property, plant and equipment	*14*	25	21	18
CURRENT ASSETS				
Inventory	*15*	4,720	6,186	6,115
Trade and other receivables	*16*	20,523	8,432	7,433
Amounts due from fellow subsidiaries	*17*	2,674	–	18,560
Amounts due from shareholders	*17*	6,800	7,853	–
Prepaid tax		–	797	1,043
Bank balances and cash	*18*	11,544	21,734	30,267
		46,261	45,002	63,418
CURRENT LIABILITIES				
Trade and other payables	*19*	7,825	6,702	15,033
Amount due to fellow subsidiaries	*17*	1,267	6,182	–
Amount due to shareholders	*17*	–	–	33,002
Tax payables		4,744	–	–
		13,836	12,884	48,035
NET CURRENT ASSETS		32,425	32,118	15,383
TOTAL ASSETS LESS CURRENT LIABILITIES		32,450	32,139	15,401
CAPITAL AND RESERVES				
Share capital	*20*	10,000	10,000	10,000
Reserves		22,450	22,139	5,401
TOTAL EQUITY		32,450	32,139	15,401

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Statutory reserve *(Note)*	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	10,000	1,600	4,583	16,183
Profit for the year and other comprehensive income	–	–	16,267	16,267
Transfer from retained earnings to statutory reserve	–	1,627	(1,627)	–
At 31 December 2015 and 1 January 2016	10,000	3,227	19,223	32,450
Profit for the year and other comprehensive income	–	–	2,385	2,385
Dividend paid *(note 12)*	–	–	(2,696)	(2,696)
Transfer from retained earnings to statutory reserve	–	238	(238)	–
At 31 December 2016 and 1 January 2017	10,000	3,465	18,674	32,139
Profit for the year and other comprehensive income	–	–	15,005	15,005
Dividend paid *(note 12)*	–	–	(31,743)	(31,743)
Transfer from retained earnings to statutory reserve	–	1,500	(1,500)	–
At 31 December 2017	10,000	4,965	436	15,401

Note: Statutory reserve represents general reserve and enterprise expansion fund which are set up by subsidiaries established and operated in the People's Republic of China ("PRC") by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the Board of Directors of the PRC subsidiaries, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for the each year, until when the accumulated balance reaches 50% of the total registered capital of the subsidiary. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.

STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit after taxation	16,267	2,385	15,005
Adjustments for:			
Depreciation of property, plant and equipment	13	13	3
Interest income	(108)	(220)	(245)
Interest expense	–	–	218
Income tax expense	5,645	1,068	5,001
Operating cash flows before movements in working capital	21,817	3,246	19,982
Decrease (increase) in inventories	(4,328)	(1,466)	71
Decrease (increase) in trade and other receivables	(12,579)	12,091	999
Increase (decrease) in trade and other payables	4,498	(1,123)	8,331
Decrease (increase) in amounts due from fellow subsidiaries	853	2,674	(18,560)
Decrease (increase) in amounts due from shareholders	(2,000)	(1,053)	7,853
Increase (decrease) in amounts due to fellow subsidiaries	1,267	4,915	(6,182)
Increase (decrease) in amounts due to shareholders	(9,000)	–	33,002
Cash generated from operations	528	19,284	45,496
Interest received	108	220	245
Income tax paid	(1,801)	(6,609)	(5,247)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(1,165)	12,895	40,494

STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(18)	(9)	–
NET CASH USED IN INVESTING ACTIVITIES	(18)	(9)	–
FINANCING ACTIVITIES			
Interest paid *(note 8)*	–	–	(218)
Dividend paid *(note 12)*	–	(2,696)	(31,743)
NET CASH USED IN FINANCING ACTIVITIES	–	(2,696)	(31,961)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,183)	10,190	8,533
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	12,727	11,544	21,734
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	11,544	21,734	30,267

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General and background

Guangdong Tiannuo Civil Explosives Co., Ltd is a private limited liability company established in the PRC on 15 January 2008 with three shareholders, namely Guangdong Nanhai Chemical Factory Co., Ltd ("Nanhai Chemical"), Guangdong 401 Factory*（廣東四零一廠）("401 Factory"), Guangdong Huawei Chemical Industry Co. Ltd.*（廣東華威化工集團有限公司）("Huawei") and they held the Target Company's equity interest at 51%, 24.5% and 24.5% respectively.

As agreed between the shareholders of the Target Company, 401 Factory, Huawei and Nanhai Chemical, each of whom would be responsible for one of the three branches of the Target Company, namely the Meixian, Hingning and Gaoyao Branch. In February 2017, 401 Factory and Huawei each transferred its respective entire 24.5% interest in the Target Company to Nanhai Chemical pursuant to the cessation of operations of the Meixian and Hingning Branches. Hingning branch was deregistered on 19 December 2017 while the deregistration of Meixian branch has not yet been completed at the date of this Circular.

As at 31 December 2017, the holding company of the Target Company is Nanhai Chemical, a private limited company incorporated in the PRC. The address of the registered office and principal place of business of the Target Company is Lianhua Mansion, No.16, North Side of Nanhai Avenue, Nanhai District, Foshan, Guangdong.

The principal activity of the Target Company is the manufacturing and distributing of porous granular ammonium oil explosives, emulsion explosives and industrial detonating cord.

The financial statements are presented in RMB, which is the same as the functional currency of the Target Company.

2. Basis of preparation and presentation of historical financial information

The Historical Financial Information of the Target Company has been prepared for inclusion in the Circular in connection with the Acquisition.

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with HKFRSs issued by the HKICPA and complied with the disclosure requirements of the Hong Kong Companies Ordinance applicable for a PRC established company. All HKFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been adopted by the the Target Company in the preparation of the Historical Financial Information throughout the Track Record Period.

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. New and revised HKFRSs in issue but not yet effective

At the date of this report, the HKICPA has issued the following new standards, amendments to standards and interpretation that have been issued but are not yet effective:

The Target Company has not early applied the following new HKFRSs that have been issued but are not yet effective. The Directors of the Target Company anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Target Company.

HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instrument[1]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Lease[2]
HKFRS 17	Insurance Contracts[3]
HKFRSs (Amendments)	Annual Improvement to HKFRSs 2015-2017 Cycle[2]
HKAS 28 (Amendments)	As part of the Annual Improvements HKFRSs 2014-2016 Cycle[1]
HKAS 28 (Amendments)	Long-term Interest in Associates and Joint Ventures[2]
HKAS 40 (Amendments)	Transfers of Investment Property[1]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]

[1] *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*

[2] *Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.*

[3] *Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.*

[4] *Effective for annual periods beginning on or after a date to be determined.*

4. Significant accounting policies

The principal accounting policies are set out below:

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Electronic equipment	34%
Furniture	20%
Motor vehicles	20%

Impairment on tangible assets

At the end of each reporting period, the Target Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. Significant accounting policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the the Target Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Target Company's financial assets are mainly classified into financial assets as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, prepayments and deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For the financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, 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 losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities (including trade and other payables, amount due to shareholders and amount due to fellow subsidiary) are subsequently measured at amortised cost using effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, (where appropriate), a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, when the financial assets are transferred and the Target Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Target Company's statement of financial position (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income is recognised as it accrues using the effective interest method.

4. Significant accounting policies (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the combined statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiary and associates, and interests in joint arrangement, except where the Target Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

4. Significant accounting policies (Continued)

Taxation (Continued)

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Company as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. Significant accounting policies (Continued)

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control of the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company 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 Target Company or an entity related the Company;

(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); and

4. Significant accounting policies (Continued)

Related parties (Continued)

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, time deposits with banks and other financial institutions, and short-term liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the combined statement of cash flows, bank overdrafts or bank loans, if any, which are repayable on demand and form an integral part of an enterprise's cash managements are also included as component of cash and cash equivalents.

5. Key sources of estimation uncertainty

In the application of the Target Company's accounting policies, which are described in note 4, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. Key sources of estimation uncertainty (Continued)

Impairment of inventories

The management of the Target Company reviews an aging analysis at the end of each reporting period, and identifies obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for the inventory based primarily on the latest invoice prices and current market conditions. The Target Company carries out a review of the inventories on a product-by-product basis at the end of each reporting periods and provide impairment on obsolete items.

Useful lives of property, plant and equipment

The management of the Target Company determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or writedown technically obsolete or non-strategic assets that have been abandoned or sold.

6. Revenue

Revenue represents the net amounts of goods sold net of value-added tax, and services rendered, during the Relevant Periods.

Continuing operation

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Sales of civil explosive	184,038	193,118	199,861

6. Revenue (Continued)

Continuing operation (Continued)

The chief operating decision-maker ("CODM") has been identified as the directors of the Target Company. The directors review the Target Company's internal reporting in order to assess performance and allocate resources. For the years ended 31 December 2015, 2016 and 2017, the directors consider that the Target Company's operations are operated and managed as a single segment – sale of civil explosives. No separate segment information was presented for the Relevant Periods. For the years ended 31 December 2015, 2016 and 2017, revenue of approximately RMB177,785,000, RMB184,927,000 and RMB193,145,000 were derived from one single customer i.e., Guangdong District Civil Explosive Equipment Specialty Company Limited*（廣東省民用爆破器材專責公司）.

The Target Company is domiciled in the PRC. All of the Target Company's revenue are generated in the PRC and all of its non-current assets are located in the PRC during the Relevant Periods.

7. Other income

Continuing operation

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Interest income	108	220	245
Sales of scrap materials	154	69	66
	262	289	311

8. Finance costs

Continuing operation

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Loan from shareholder	–	–	218

9. Income tax expense

Continuing operation

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
PRC Enterprise Income Tax	5,174	2,529	3,874

The Target Company is established in the PRC and is subject to PRC Enterprise Income Tax ("EIT") at a rate of 25% for the relevant periods on established assessable profits arising in or derived from the PRC.

9. Income tax expense (Continued)

Continuing operation (Continued)

The income tax expense for the year can be reconciled to the profit before taxation per the statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	20,028	9,296	15,498
Tax calculated at the Enterprise income rate of 25%	5,007	2,324	3,874
Tax effect of expenses not deductible for tax purpose	167	205	–
Income tax expense for the year	5,174	2,529	3,874

10. Discontinued operations

According to the share transfers agreement signed on 6 February 2017, two shareholders, namely 401 Factory and Huawei, had transferred an aggregate of 49% equity interests to the substantial shareholder, Nanhai Chemical. Meanwhile, the Target Company have decided to cease the operations of the Meixian and Hingning Branches and apply for deregistration. In this regard, Meixian and Hingning have discontinued their operations. The Hingning branch was deregistered on 19 December 2017 while the deregistration of the Meixian branch has not been completed at the date of this Circular. The Target Company possesses the "Civil Explosives Production License*"(《民用爆炸物品生產許可證》) and the production scope includes the production lines of three branches in different places. Each branch in fact carries out civil explosives production operations independently. According to the sales and procurement arrangement of the Target Company, civil explosives are directly delivered to end-users from the production plants of each branch and the delivery notes are kept in each branch.

* *For identification purpose only*

10. Discontinued operations (Continued)

According to Hong Kong Accounting Standard 18 "Revenue", sales of goods are recognized when the goods are delivered and the actual risks and rewards are transferred. As the delivery invoices are stored in each branch and the Target Company is unable to obtain books and records of the Meixian and Hingning branches, we are unable to obtain sufficient and appropriate audit evidence and there is no alternative audit procedure for us to ascertain the existence, cut-off, accuracy, valuation and completeness of the revenue, cost of sales, other relevant expenses and assets and liabilities balances of the two branches for the years ended 31 December 2015, 31 December 2016 and 31 December 2017.

The results of the discontinued operations is as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	166,015	146,248	86,817
Cost of sales	(162,361)	(151,361)	(82,236)
Gross profit/(loss)	3,654	(5,113)	4,581
Administrative expenses	(1,770)	(730)	(73)
Profit/(loss) before taxation from discontinued operations	1,884	(5,843)	4,508
Income tax (expense)/credit	(471)	1,461	(1,127)
Profit/(loss) for the year from discontinued operations and attributable to owners of the Company	1,413	(4,382)	3,381

10. Discontinued operations (Continued)

Profit/(loss) for the year from discontinued operations include the following:

	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
Auditor's remuneration	–	–	–
Depreciation	–	–	–

Cash flows from discontinued operations

	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
Net cash outflows from operating activities	1,413	(4,382)	3,381
Net cash outflows	1,413	(4,382)	3,381

None of the assets or liabilities related to disposal group was classified as held for sale.

11. Profit for the year

Continuing operation

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year has been arrived at after charging (crediting):			
Depreciation of property, plant and equipment	13	13	3
Auditor's remuneration	38	185	44
Total staff costs (including Director's remuneration)	50,878	50,676	42,314

12. Dividend

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Final dividend paid	–	2,696	31,743

The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

13. Directors' and employees' emoluments

(a) Directors' emoluments and other benefits

The emoluments paid or payable to each of the directors of the the Target Company for their services in the management of the affairs of the Target Company were as follows:

For the year ended 31 December 2015

Name of directors	Fees	Salaries, and other benefits	Discretionary incentive payments	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
呂紹暹	–	238	127	51	416
胡見輝	–	202	112	49	363
潘海雄	–	202	112	50	364
王萬勇	–	202	112	49	363
宋強 (resigned on 31/5/2015)	–	84	47	9	140
Total	–	928	510	208	1,646

For the year ended 31 December 2016

Name of directors	Fees	Salaries, and other benefits	Discretionary incentive payments	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
胡見輝	–	122	180	43	345
潘海雄	–	122	180	44	346
王萬勇	–	122	180	43	345
吳小雄 (appointed on 15/7/2016)	–	65	96	14	175
溫振星 (appointed on 15/7/2016)	–	56	83	13	152
呂紹暹 (resigned on 15/7/2016)	–	77	113	24	214
Total	–	564	832	181	1,577

13. Directors' and employees' emoluments (Continued)

(a) Directors' emoluments and other benefits (Continued)

For the year ended 31 December 2017

Name of directors	Fees	Salaries, and other benefits	Discretionary incentive payments	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
吳小雄	–	–	–	–	–
溫振星	–	–	–	–	–
胡見輝	–	–	–	–	–
潘海雄	–	–	–	–	–
王萬勇	–	–	–	–	–
Total	–	–	–	–	–

The Directors' emoluments disclosed above include their services in connection with the management of the affairs of the Target Company. No Directors had waived any emoluments for the years ended 31 December 2015, 2016 and 2017. Save as disclosed above, no other emoluments were paid or payable to any Director.

During the years ended 31 December 2015, 2016 and 2017, no emoluments had been paid by the Target Company to the Directors or the five highest-paid individuals referred to in (d) below as an inducement to join or upon joining the Target Company or as a compensation for loss of office.

(b) Directors' material interests, transactions, arrangements or contracts

No transactions, arrangements and contracts of significance to which the Target Company as a party and in which a Director of the Target Company had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

13. Directors' and employees' emoluments (Continued)

(c) Loans, quasi-loans and other dealings in favour of Directors

No loans, quasi-loans and other dealings in favour of Directors of the Target Company or body corporate controlled by such Directors, or entities connected with such directors, subsisted at the end of the year or at any time during the year.

(d) Five highest-paid individual

For the years ended 31 December 2015 and 2016, the emoluments of the top five individuals included five directors respectively, details of whose emoluments are set out in Note 13(a).

Of the five individuals with highest emoluments in the Target Company for the year ended 31 December 2017, none of them is a director of the Target Company. Details of the remuneration of the remaining five non-director, highest paid individuals are as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	–	–	1,093
Retirement benefits scheme contributions	–	–	157
	–	–	1,250

14. Property, plant and equipment

	Motor Vehicles *RMB'000*	Electronic Equipment *RMB'000*	Office Equipment *RMB'000*	Total *RMB'000*
COST				
At 1 January 2015	402	212	384	998
Addition	–	18	–	18
At 31 December 2015 and 1 January 2016	402	230	384	1,016
Addition	–	4	5	9
At 31 December 2016, 1 January 2017 and 31 December 2017	402	234	389	1,025
ACCUMULATED DEPRECIATION				
At 1 January 2015	398	199	381	978
Provided for the year	–	12	1	13
At 31 December 2015 and 1 January 2016	398	211	382	991
Provided for the year	–	8	5	13
At 31 December 2016 and 1 January 2017	398	219	387	1,004
Provided for the year	–	3	–	3
31 December 2017	398	222	387	1,007
CARRYING VALUES				
At 31 December 2017	4	12	2	18
At 31 December 2016	4	15	2	21
At 31 December 2015	4	19	2	25

15. Inventories

	At 31 December		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
AT COST			
Raw materials	4,058	5,920	5,715
Finished goods	662	266	400
	4,720	6,186	6,115

The cost of inventories recognised as expenses and included in cost of sales amounts to RMB90,038,000, RMB92,808,000, RMB97,935,000 for each of the year ended 31 December 2015, 2016 and 2017 respectively.

The Directors considered the provision for inventory obsolescence is not required for the Relevant Period.

16. Trade and other receivables

The Target Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Target Company allows an average credit period of 90 days to its customers.

16. Trade and other receivables (Continued)

An aging analysis of the Target Company's trade receivables after deducting the allowance for doubtful debts presented based on invoice dates at the end of the reporting period.

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables within 0-60 days	14,232	1,676	–
Prepayment for acquisition of raw material	5,933	2,543	1,915
Other receivables	358	4,213	5,518
	20,523	8,432	7,433

The Target Company does not hold any collateral or other credit enhancements over these balances.

Trade receivables that were neither past due nor impaired related to customer for whom there were no recently history of default. The Director consider that the carrying amount of trade receivables approximates to their fair value.

17. Amounts due from/to fellow subsidiaries/shareholders

The amount due from/(to) fellow subsidiaries are unsecured, non-interest bearing and repayable on demand. The amount due to shareholders is unsecured, non-interest bearing and repayable on demand as at 31 December 2015 and 2016 while the amount is unsecured, interest bearing at a fixed rate of 4.35% per annum and repayable on demand as at 31 December 2017. The carrying amount approximates their fair value.

18. Bank balances and cash

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Cash at banks and in hands	11,544	21,734	30,267

The carrying amount of bank balances and cash are denominated in RMB. Cash at banks earns interest at floating rate based on daily bank deposit rate.

19. Trade payables and other payables

The credit period granted by the Target Company's supplies ranges from 30 days to 90 days.

An aging analysis of the Target Company's trade payables based on the invoice dates at the end of the reporting period.

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables within 0-60 days	4,356	2,550	3,187
Other payables	3,469	4,152	11,846
	7,825	6,702	15,033

19. Trade payables and other payables (Continued)

Other payables included the following items:

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Receipts in advance	–	–	5,768
Accrued wages	7	7	1,500
Other tax payable	3,142	3,137	3,695
Others	320	1,008	883
	3,469	4,152	11,846

The Directors considered that the carrying amount of trade and other payable approximates to their fair value. The Target Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

20. Share capital

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid up capital	10,000	10,000	10,000

21. Operating lease arrangement

The Target Company as lessee

The Target Company's rental expense during the years ended 31 December 2015, 2016 and 2017 was approximately RMB601,000, RMB5,085,000 and RMB14,854,000 respectively. At the end of each reporting period, the Target Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	600	7,320	–

22. Capital risk management

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

The directors of the Target Company review the capital structure on a continuous basis. As part of this review, the directors of the Target Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Target Company will balance its overall capital structure through payment of dividends, issue of new shares as well as issue of new debts or redemption of existing debts.

23. Financial instruments

Categories of financial instruments

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Trade and other receivables	14,590	5,889	5,518
Amounts due from fellow subsidiaries	2,674	–	18,560
Amounts due from shareholders	6,800	7,853	–
Bank balances and cash	11,544	21,734	30,267
	35,608	35,476	54,345
Financial liabilities			
Trade and other payables	7,825	6,702	9,265
Amount due to fellow subsidiaries	1,267	6,182	–
Amount due to shareholders	–	–	33,002
	9,092	12,884	42,267

23. Financial instruments (Continued)

Financial risk management objectives and policies

The Target Company's financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The credit risk of the Target Company mainly arises from cash and cash equivalents, and trade and other receivables. The carrying amounts of these balances represent the Target Company's maximum exposure to credit risk in relation to financial assets.

At the end of the reporting period, all the Target Company's bank deposits are mainly placed in state-owned banks and certain commercial banks in the PRC that have investment grade ratings. Management believes these financial institutions are of high credit quality and management does not expect any losses arising from non-performance by these counterparties.

For trade and other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is not significant.

23. Financial instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

The Target Company's managment regularly monitors current and expected liquidity requirements to ensure that adequate funding is available for operating, investing and financing activities.

The table included both interest and principal cash flows. To the extent that interest are at floating rate, the undiscounted amount is derived from contracted interest rate at the end of each reporting period.

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 to 3 years	Between 3 to 5 years	Total Over 5 years	Total undiscounted cash flows	carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2015							
Trade payables and other payables	–	7,825	–	–	–	7,825	7,825
Amounts due to fellow subsidiaries	–	1,267	–	–	–	1,267	1,267
		9,092	–	–	–	9,092	9,092

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 to 3 years	Between 3 to 5 years	Total Over 5 years	Total undiscounted cash flows	carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2016							
Trade payables and other payables	–	6,702	–	–	–	6,702	6,702
Amounts due to fellow subsidiaries	–	6,182	–	–	–	6,182	6,182
		12,884	–	–	–	12,884	12,884

23. Financial instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 to 3 years	Between 3 to 5 years	Total Over 5 years	Total undiscounted cash flows	carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2017							
Trade payables and other payables	–	9,265	–	–	–	9,265	9,265
Amounts due to shareholder	–	13,002	–	–	–	13,002	13,002
Amounts due to shareholder *(Note)*	4.35	20,000	–	–	–	20,000	20,000
		42,267	–	–	–	42,267	42,267

Note: The amount due to shareholder is unsecured, interest bearing and repayable on demand as at 31 December 2017.

24. Reconcilation of liabilities arising from financing activities

The table below details changes in the the Target Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the the Target Company's statement of cash flows as cash flows from financing activities.

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to shareholder			
Interest expense	–	–	218

25. Related party transactions

Apart from the amounts due from/to fellow subsidiary and shareholders as set out in note 17, the Target Company entered into the following significant transactions with its related companies and group companies:

Relationship	Transaction	Year ended 31 December 2015 *RMB'000*	2016 *RMB'000*	2017 *RMB'000*
Shareholders *(i)*	Purchase of explosive	559	–	–
	Purchase of raw materials	–	17	19,589
	Interest expense	–	–	218
	Rental expense	–	–	108
	Staff costs	50,878	50,676	42,314
Shareholders controlled entities *(ii)*	Purchase of explosive	157,179	152,701	82,944
Fellow subsidiaries *(iii)*	Freight charge	8,039	17,048	14,598
	Purchase of explosive	1,345	–	–
	Purchase of raw materials	74,075	50,428	1,415
	Rental expense	600	5,080	14,719

Note:

(i) Shareholders include Guangdong Nanhai Chemical Industry Co., Ltd.*（廣東省南海化工總廠有限公司）and Guangdong Huawei Chemical Industry Co,. Ltd.*（廣東華威化工集團有限公司）.

(ii) Shareholders controlled entities include Meixian branch and Hingning branch of the Target Company. The purchase of explosive from Meixian branch and Hingning branch relate to the discontinued operations *(Note 10)* in which Hingning branch was deregistered on 19 December 2017 while the deregistration of Meixian branch has not yet been completed at the date of this Circular.

(iii) Fellow subsidiaries mainly include Guangdong Nanhong Chemical Co., Ltd.*（廣東南虹化工有限公司）and other subsidiaries of Guangdong Nanhai Chemical Industry Co., Ltd.*（廣東省南海化工總廠有限公司）.

Compensation of key management personnel

The directors are of the opinion that the key management personnel were solely the directors. Details of whose emolument, are set out in Note 13(a).

26. Subsequent financial statements

No audited financial statement of the Target Company has been prepared in respect of any period subsequent to 31 December 2017 and up to the date of this report.

The following is the text of a report on the historical financial information of the Supplier Target set out on pages III-1 to III-39 received from the Company's reporting accountants, HLM CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA INVESTMENTS HOLDINGS LIMITED

Dear Sirs,

Introduction

We report on the historical financial information of Guangdong Nanhong Chemical Co., Ltd.*（廣東南虹化工有限公司）("Nanhong") set out on pages III-4 to III-39, which comprises the statements of financial position as at 31 December 2015, 31 December 2016 and 31 December 2017, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the three years ended 31 December 2017 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages III-4 to III-39 forms an integral part of this report, which has been prepared for inclusion in the circular of China Investments Holdings Limited (the "Company") dated 9 May 2018 (the "Circular") in connection with the proposed acquisition of the 49% equity interest in the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Information of the Target Company is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

* *For identification purpose only*

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design 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. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of Nanhong, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of Nanhong's financial position as at 31 December 2015, 2016 and 2017 and of its financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 to the Historical Financial Information, which states that Nanhong's current liabilities exceeded its current assets by RMB60,129,000, RMB53,789,000 and RMB51,294,000 as at 31 December 2015, 2016, 2017 respectively. These conditions, along with other matters as set forth in note 2 to the Historical Financial Information, indicates the existence of a material uncertainty that may cast significant doubt about Nanhong's ability to continue as a going concern if it does not have the financial support of its shareholders.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Information have been made.

Dividends

We refer to note 11 to the Historical Financial Information which provides information on dividends that have been paid by Nanhong in respect of the Relevant Periods.

HLM CPA Limited
Certified Public Accountants
Ng Fai Fiona
Practicing Certificate Number P4986
Hong Kong, 9 May 2018

HISTORICAL FINANCIAL INFORMATION OF NANHONG

Preparation of historical financial information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The statutory financial statements of Nanhong for the Relevant Periods were prepared in accordance with the relevant accounting principles and regulations applicable in the People's Republic of China (the "PRC") and were audited by the following certified public accountants registered in the PRC:

Financial period	Name of auditors
For the year ended 31 December 2015	佛山中瑞誠會計師事務所有限公司
For the year ended 31 December 2016	佛山市中道會計師事務所
For the year ended 31 December 2017	廣東誠安信會計師事務所

The financial statements of the Nanhong for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2015	**2016**	**2017**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	73,918	55,513	16,122
Cost of sales		(62,022)	(41,295)	(1,318)
Gross profit		11,896	14,218	14,804
Other operating income	*7*	676	1,364	1,494
Administrative expenses		(15,779)	(15,221)	(12,960)
Finance costs	*8*	–	–	(870)
(Loss)/profit before taxation		(3,207)	361	2,468
Income tax expense	*9*	(244)	(609)	(617)
(Loss)/profit for the year and other comprehensive (expense)/income	*10*	(3,451)	(248)	1,851

STATEMENTS OF FINANCIAL POSITION

		Year ended 31 December		
		2015	2016	2017
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSET				
Property, plant and equipment	*13*	85,615	78,764	70,632
CURRENT ASSETS				
Other receivables	*14*	1,692	1,021	205
Amounts due from fellow subsidiaries	*15*	1,276	8,355	–
Bank balances and cash	*16*	4,838	3,509	1,837
		7,806	12,885	2,042
CURRENT LIABILITIES				
Trade and other payables	*17*	3,664	2,601	1,098
Amount due to fellow subsidiaries	*15*	4,781	4,781	18,560
Amount due to holding company	*15*	56,962	58,316	31,837
Deferred Income	*19*	263	263	263
Tax payables		2,265	713	1,578
		67,935	66,674	53,336
NET CURRENT LIABILITIES		(60,129)	(53,789)	(51,294)
TOTAL ASSETS LESS CURRENT LIABILITIES		25,486	24,975	19,338
CAPITAL AND RESERVES				
Share capital	*18*	10,000	10,000	10,000
Reserves		12,986	12,738	7,364
TOTAL EQUITY		22,986	22,738	17,364
NON-CURRENT LIABILITY				
Deferred Income	*19*	2,500	2,237	1,974
		25,486	24,975	19,338

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Statutory reserve *(Note)*	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	5,000	2,294	21,477	28,771
Loss for the year and other comprehensive expense	–	–	(3,451)	(3,451)
Capital injection	5,000	–	–	5,000
Dividend paid *(note 11)*	–	–	(7,334)	(7,334)
At 31 December 2015 and 1 January 2016	10,000	2,294	10,692	22,986
Loss for the year and other comprehensive expense	–	–	(248)	(248)
At 31 December 2016 and 1 January 2017	10,000	2,294	10,444	22,738
Profit for the year and other comprehensive income	–	–	1,851	1,851
Dividend paid *(note 11)*	–	–	(7,225)	(7,225)
Transfer from retained earnings to statutory reserve	–	185	(185)	–
At 31 December 2017	10,000	2,479	4,885	17,364

Note: Statutory reserve represents general reserve and enterprise expansion fund which are set up by Company established and operated in the People's Republic of China ("PRC") by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation of the general reserve and enterprise expansion fund is subject to the decision of the Board of Directors, but the minimum appropriation rate for the general reserve is 10% of the profit after taxation for the each year, until when the accumulated balance reaches 50% of the total registered capital of the subsidiary. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital, and the enterprise expansion fund can be used to increase the capital.

STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
(Loss)/profit after taxation	(3,451)	(248)	1,851
Adjustments for:			
Depreciation of property, plant and equipment	9,641	10,695	11,128
Interest income	(30)	(25)	(29)
Interest expense	–	–	870
Income tax expense	244	609	617
Deferred income	(237)	(263)	(263)
Operating cash flows before movements in working capital	6,167	10,768	14,174
Decrease in inventories	3,830	–	–
Decrease in trade and other receivables	9,356	671	816
Decrease in trade and other payables	(4,439)	(1,063)	(1,503)
(Increase)/decrease in amounts due from fellow subsidiaries	(353)	(7,079)	8,355
(Decrease)/increase in amounts due to fellow subsidiaries	(4,510)	–	13,779
Increase/(decrease) in amounts due to holding company	2,896	1,354	(26,479)
Cash generated from operations	12,947	4,651	9,142
Interest received	30	25	29
Income tax paid	(2,893)	(2,161)	–
Income tax refunded	–	–	248
NET CASH GENERATED FROM OPERATING ACTIVITIES	10,084	2,515	9,419

STATEMENTS OF CASH FLOWS (CONTINUED)

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(8,046)	(3,844)	(2,996)
NET CASH USED IN INVESTING ACTIVITIES	(8,046)	(3,844)	(2,996)
FINANCING ACTIVITIES			
Capital injection *(note 18)*	5,000	–	–
Interest paid *(note 8)*	–	–	(870)
Dividend paid *(note 11)*	(7,334)	–	(7,225)
NET CASH USED IN FINANCING ACTIVITIES	(2,334)	–	(8,095)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(296)	(1,329)	(1,672)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	5,134	4,838	3,509
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	4,838	3,509	1,837

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General

Nanhong is a private limited liability company established in the PRC on 13 December 2002. Its holding company is Guangdong Nanhai Chemical General Factory Co. Ltd., a private limited company incorporated in the PRC. The address of the registered office and principal place of business of the Nanhong is Kengtang, Liantang Town, Gaoyao District, Zhaoqing, Guangdong, China.

The principal activity of Nanhong is the sales of raw materials and property holding.

The financial statements are presented in RMB, which is the same as the functional currency of Nanhong.

2. Basis of preparation and presentation of historical financial information

The Historical Financial Information of Nanhong has been prepared for inclusion in the Circular in connection with the Acquisition.

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with HKFRSs issued by the HKICPA and complied with the disclosure requirements of the Hong Kong Companies Ordinance applicable for a PRC established company. All HKFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been adopted by the Nanhong in the preparation of the Historical Financial Information throughout the Track Record Period.

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

In preparing the financial statements, the directors of Nanhong have given careful consideration to the future liquidity of Nanhong in light of the fact that Nanhong's current liabilities exceed its current assets by RMB60,129,000, RMB53,789,000, and RMB51,294,000 as at 31 December 2015, 2016 and 2017 respectively. Nanhong's current liabilities as at 31 December 2015, 2016, and 2017 included an amount due to holding company of approximately RMB56,962,000, RMB58,316,000, and RMB31,837,000 respectively that are repayable on demand. As the holding company has agreed not to demand for repayment of its debt and has committed to provide adequate funds to enable Nanhong to meet in full its financial obligations as they fall due in the foreseeable future and be able to operate on a going concern basis. Accordingly, the financial statements have been prepared on a going concern basis.

3. New and revised HKFRSs issued but not yet effective

At the date of this report, the HKICPA has issued the following new standards, amendments to standards and interpretation that have been issued but are not yet effective:

Nanhong has not early applied the following new HKFRSs that have been issued but are not yet effective. The Directors of the Nanhong anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Nanhong.

HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[1]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
HKFRS 9	Financial Instrument[1]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Lease[2]
HKFRS 17	Insurance Contracts[3]
HKFRSs (Amendments)	Annual Improvement to HKFRSs 2015-2017 Cycle[2]
HKAS 28 (Amendments)	As part of the Annual Improvements HKFRSs 2014-2016 Cycle[1]
HKAS 28 (Amendments)	Long-term Interest in Associates and Joint Ventures[2]
HKAS 40 (Amendments)	Transfers of Investment Property[1]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]

1 *Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.*

2 *Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.*

3 *Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.*

4 *Effective for annual periods beginning on or after a date to be determined.*

4. Significant accounting policies

The principal accounting policies are set out below:

Property, plant and equipment and leasehold land

i. Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	5% to 9%
Plant and machinery	10% to 13%
Office equipment	10% to 20%
Motor vehicles	13%
Electronic equipment	20% to 34%

Leasehold land is amortised uniformly over the term of the lease.

4. Significant accounting policies (Continued)

Property, plant and equipment and leasehold land (Continued)

ii. Construction in progress

Construction in progress represents property, plant and equipment in the course of construction for production or for own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is reclassified to the appropriate category of property, plant and equipment when it is completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Impairment on tangible and intangible assets

At the end of each reporting period, Nanhong reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

4. Significant accounting policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when an entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Nanhong's financial assets are mainly classified into financial assets as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, prepayments and deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For the financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Nanhong's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, 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 losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities (including trade and other payables, amount due to holding company and amount due to fellow subsidiaries) are subsequently measured at amortised cost using effective interest method.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, when the financial assets are transferred and Nanhong has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from Nanhong's statement of financial position when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Rental income arising from production plants and equipment let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

4. **Significant accounting policies (Continued)**

Taxation

Income tax expense represents the sum of the tax currently payable.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. Nanhong's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangement, except where Nanhong is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

4. Significant accounting policies (Continued)

Taxation (Continued)

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that Nanhong will comply with the conditions attaching to them. Grants that compensate Nanhong for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate Nanhong for the cost of an asset are recognised as deferred income and subsequently recognised in profit or loss on a systematic basis over the useful life of the asset.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

4. Significant accounting policies (Continued)

Leases (Continued)

Nanhong as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Related parties

A party is considered to be related to Nanhong if:

(a) the party is a person or a close member of that person's family and that person:

 (i) has control or joint control of Nanhong;

 (ii) has significant influence over Nanhong; or

 (iii) is a member of the key management personnel of Nanhong or of a parent of Nanhong; or

(b) the party is an entity where any of the following conditions applies:

 (i) the entity and Nanhong are members of the same group;

 (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

 (iii) the entity and Nanhong 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;

4. Significant accounting policies (Continued)

Related parties (Continued)

(v) the entity is a post-employment benefit plan for the benefit of employees of either Nanhong or an entity related Nanhong;

(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); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, time deposits with banks and other financial institutions, and short-term liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the statement of cash flows, bank overdrafts or bank loans, if any, which are repayable on demand and form an integral part of an enterprise's cash managements are also included as component of cash and cash equivalents.

5. Key sources of estimation uncertainty

In the application of Nanhong's accounting policies, which are described in note 4, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

The Nanhong's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or writedown technically obsolete or non-strategic assets that have been abandoned or sold.

6. Revenue

Revenue represents the net amounts of goods sold net of value-added tax, and services rendered, during the Relevant Periods.

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Sales of raw materials	73,228	50,412	1,403
Rental income	690	5,101	14,719
	73,918	55,513	16,122

The chief operating decision-maker ("CODM") has been identified as the directors of Nanhong. The directors review Nanhong's internal reporting in order to assess performance and allocate resources. For the years ended 31 December 2015, 2016 and 2017, the directors consider that Nanhong's operations are operated and managed as a single segment – development, operation and management of production plants of civil explosives. No separate segment information was presented for the Relevant Periods. For the years ended 31 December 2015, 2016 and 2017, revenue of approximately RMB73,868,000, RMB55,503,000 and RMB16,122,000 were derived from the sales of raw materials and rental income from one single customer i.e., Gaoyao branch of the Target Company.

Nanhong is domiciled in the PRC. All of the Nanhong's revenue are generated in the PRC and all of its non-current assets are located in the PRC during the Relevant Periods.

7. Other income

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Government grants *(note)*	237	1,314	1,463
Interest income	30	25	29
Others	409	25	2
	676	1,364	1,494

Note: Majority of the government grants are subsidies received from government for encouragement of research and development projects

8. Finance costs

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Loan from holding company	–	–	870

9. Income tax expense

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
PRC Enterprise Income Tax	244	609	617

Nanhong is established in the PRC and is subject to PRC Enterprise Income Tax ("EIT") at a rate of 25% for the relevant periods on established assessable profits arising in or derived from the PRC.

The income tax expense for the year can be reconciled to the profit/(loss) before taxation per the statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/profit before taxation	(3,207)	361	2,468
Tax calculated at the enterprise income rate of 25%	(801)	90	617
Tax effect of expenses not deductible for tax purpose	1,045	519	–
Income tax expense for the year	244	609	617

10. (Loss)/profit for the year

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/profit for the year has been arrived at after charging (crediting):			
Depreciation of property, plant and equipment	9,418	10,462	10,895
Amortisation of leasehold land	223	233	233
	9,641	10,695	11,128
Cost of inventories recognized as expense	61,746	41,068	1,082
Auditor's remuneration	117	31	19
Salaries and other benefits	340	378	314

11. Dividend

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Final dividend paid	7,334	–	7,225

The rate of dividend per share is not presented as it is not indicative of the rate at which future dividends will be declared.

12. Directors' and employees' emoluments

(a) Directors' emoluments and other benefits

The emoluments paid or payable to each of the directors of Nanhong for their services in the management of the affairs of Nanhong were as follows:

For the year ended 31 December 2015

Name of directors	Fees	Salaries, and other benefits	Discretionary incentive payments	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
呂紹暹	–	–	–	–	–
王萬勇	–	–	–	–	–
潘海雄	–	–	–	–	–
宋強	–	–	–	–	–
賴健英	–	–	–	–	–
Total	–	–	–	–	–

12. Directors' and employees' emoluments (Continued)

(a) Directors' emoluments and other benefits (Continued)

For the year ended 31 December 2016

Name of directors	Fees	Salaries, and other benefits	Discretionary incentive payments	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
王萬勇	–	–	–	–	–
潘海雄	–	–	–	–	–
吳小雄 (appointed on 20/7/2016)	–	–	–	–	–
溫振星 (appointed on 20/7/2016)	–	–	–	–	–
胡見輝 (appointed on 20/7/2016)	–	–	–	–	–
呂紹暹 (resigned on 20/7/2016)	–	–	–	–	–
宋強 (resigned on 20/7/2016)	–	–	–	–	–
賴健英 (resigned on 20/7/2016)	–	–	–	–	–
Total	–	–	–	–	–

For the year ended 31 December 2017

Name of directors	Fees	Salaries, and other benefits	Discretionary incentive payments	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
吳小雄	–	–	–	–	–
王萬勇	–	–	–	–	–
溫振星	–	–	–	–	–
潘海雄	–	–	–	–	–
胡見輝	–	–	–	–	–
Total	–	–	–	–	–

12. Directors' and employees' emoluments (Continued)

(a) Directors' emoluments and other benefits (Continued)

The Directors' emoluments disclosed above include their services in connection with the management of the affairs of Nanhong. No Directors had waived any emoluments for the year ended 31 December 2015, 2016 and 2017. Save as disclosed above, no other emoluments were paid or payable to any Director.

During the year ended 31 December 2015, 2016 and 2017, no emoluments had been paid by Nanhong to the Directors or the five highest-paid individuals referred to in (d) below as an inducement to join or upon joining Nanhong or as a compensation for loss of office.

(b) Directors' material interests, transactions, arrangements or contracts

No transactions, arrangements and contracts of significance to which Nanhong as a party and in which a Director of Nanhong had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(c) Loans, quasi-loans and other dealings in favour of Directors

No loans, quasi-loans and other dealings in favour of Directors of Nanhong or body corporate controlled by such Directors, or entities connected with such directors, subsisted at the end of the year or at any time during the year.

(d) Five highest-paid individual

Of the five individuals with highest emoluments in Nanhong during the Relevant Periods, none of them is a director of Nanhong. Details of the remuneration of the remaining five non-director, highest paid individuals are as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	304	323	267

13. Property, plant and equipment

	Leasehold Land	Buildings	Plant and Machinery	Motor Vehicles	Electronic Equipment	Office Equipment	Construction in Progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST								
At 1 January 2015	8,340	65,130	35,231	3,478	3,097	7,169	22,964	145,409
Transfer	–	22,102	2,520	–	823	132	(25,577)	–
Addition	1,751	1,949	711	–	–	9	3,626	8,046
At 31 December 2015 and 1 January 2016	10,091	89,181	38,462	3,478	3,920	7,310	1,013	153,455
Transfer	–	–	2,398	–	–	–	(2,398)	–
Addition	–	774	200	–	108	–	2,762	3,844
Disposals	–	–	–	(82)	–	–	–	(82)
At 31 December 2016 and 1 January 2017	10,091	89,955	41,060	3,396	4,028	7,310	1,377	157,217
Transfer	–	560	726	–	793	–	(2,079)	–
Addition	–	1,933	343	–	–	18	702	2,996
31 December 2017	10,091	92,448	42,129	3,396	4,821	7,328	–	160,213
ACCUMULATED DEPRECIATION								
At 1 January 2015	1,911	31,346	15,818	2,048	2,013	5,063	–	58,199
Provided for the year	223	4,659	3,591	285	289	594	–	9,641
At 31 December 2015 and 1 January 2016	2,134	36,005	19,409	2,333	2,302	5,657	–	67,840
Provided for the year	233	5,383	3,838	302	373	566	–	10,695
Eliminated on disposals	–	–	–	(82)	–	–	–	(82)
At 31 December 2016 and 1 January 2017	2,367	41,388	23,247	2,553	2,675	6,223	–	78,453
Provided for the year	233	5,536	4,116	315	524	404	–	11,128
At 31 December 2017	2,600	46,924	27,363	2,868	3,199	6,627	–	89,581
CARRYING VALUES								
At 31 December 2017	7,491	45,524	14,766	528	1,622	701	–	70,632
At 31 December 2016	7,724	48,567	17,813	843	1,353	1,087	1,377	78,764
At 31 December 2015	7,957	53,176	19,053	1,145	1,618	1,653	1,013	85,615

14. Other receivables

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	1,628	968	176
Others	64	53	29
Total other receivables	1,692	1,021	205

The Directors consider that the carrying amount of other receivables approximates to their fair value are neither past due nor impaired.

15. Amounts due from/to fellow subsidiaries/holding company

The amount due from/(to) fellow subsidiaries are unsecured, non-interest bearing and repayable on demand. The amount due to holding company is unsecured, non-interest bearing and repayable on demand as at 31 December 2015 and 2016 while the amount is unsecured, interest bearing at a fixed rate of 4.35% issued by holding company and repayable on demand as at 31 December 2017. The carrying amount approximates to its fair value.

16. Bank balances and cash

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Cash at banks and in hands	4,838	3,509	1,837

The carrying amount of bank balances and cash are denominated in RMB. Cash at banks earns interest at floating rate based on daily bank deposit rate.

17. Trade payables and other payables

Trade and other payables at the end of the reporting period comprised amounts outstanding for trade purposes and daily operating costs. The average credit period taken for trade purchase is 30 to 90 days.

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
within 0-60 days	1,530	1,085	–
Other payables	2,134	1,516	1,098
	3,664	2,601	1,098

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

18. Share capital

Registered and paid up capital	*RMB'000*
At 1 January 2015	5,000
Capital injection	5,000
At 31 December 2015, 2016 and 2017	10,000

19. Deferred income

The movements of deferred income are as follows:

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	3,000	2,763	2,500
Released to profit or loss	(237)	(263)	(263)
At end of year	2,763	2,500	2,237
Less: current portion	(263)	(263)	(263)
Non-current portion	2,500	2,237	1,974

Deferred income represents the government grants received in connection with certain plant and machinery. These government grants are released to profit or loss over the expected useful lives of the relevant assets.

20. Operating lease arrangement

Nanhong as lessor

Nanhong's property rental income earned during the years ended 31 December 2015, 2016 and 2017 was approximately RMB690,000, RMB5,101,000 and RMB14,719,000 respectively. All of the properties held have committed tenants within one year as at 31 December 2015 and 2016 respectively while no properties held have committed tenants as at 31 December 2017.

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	747	7,320	–

21. Capital commitments

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Commitments for the acquisition of the property, plant and equipment	645	140	12

22. Capital risk management

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

The directors of Nanhong review the capital structure on a continuous basis. As part of this review, the directors of Nanhong consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, Nanhong will balance its overall capital structure through payment of dividends, issue of new shares as well as issue of new debts or redemption of existing debts.

23. Financial instruments

Categories of financial instruments

	At 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Other receivables	64	53	29
Amounts due from fellow subsidiaries	1,276	8,355	–
Bank balances and cash	4,838	3,509	1,837
	6,178	11,917	1,866
Financial liabilities			
Trade and other payables	3,664	2,601	1,098
Amount due to fellow subsidiaries	4,781	4,781	18,560
Amount due to holding company	56,962	58,316	31,837
	65,407	65,698	51,495

23. Financial instruments (Continued)

Financial risk management objectives and policies

Nanhong's financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and cash flow interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The credit risk of Nanhong mainly arises from cash and cash equivalents, and other receivables and prepayment. The carrying amounts of these balances represent Nanhong's maximum exposure to credit risk in relation to financial assets.

At the end of the reporting period, all Nanhong's bank deposits are mainly placed in stateowned banks and certain commercial banks in the PRC that have investment grade ratings. Management believes these financial institutions are of high credit quality and management does not expect any losses arising from non-performance by these counterparties.

For other receivables, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is not significant.

Liquidity risk

Nanhong regularly monitors current and expected liquidity requirements to ensure that adequate funding is available for operating, investing and financing activities.

As at 31 December 2017, Nanhong had recorded net current liabilities of RMB51,294,000. The sole shareholder of the Nanhong had confirmed its intention to provide continual financial support to Nanhong so as to enable to meet liabilities as and when they fall due.

23. Financial instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The table included both interest and principal cash flows. To the extent that interest flows were floating rate, the undiscounted amount was derived from contracted interest rate at the end of each reporting period.

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 to 3 years	Between 3 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2015							
Trade payables and other payables	–	3,664	–	–	–	3,664	3,664
Amount due to fellow subsidiaries	–	4,781	–	–	–	4,781	4,781
Amount due to holding company	–	56,962	–	–	–	56,962	56,962
		65,407	–	–	–	65,407	65,407

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 to 3 years	Between 3 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2016							
Trade payables and other payables	–	2,601	–	–	–	2,601	2,601
Amount due to fellow subsidiaries	–	4,781	–	–	–	4,781	4,781
Amount due to holding company	–	58,316	–	–	–	58,316	58,316
		65,698	–	–	–	65,698	65,698

23. Financial instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 or 3 years	Between 3 to 5 years	Over 5 years	Total undiscounted cash flows	Total carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2017							
Trade payables and other payables	–	1,098	–	–	–	1,098	1,098
Amount due to fellow subsidiaries	–	18,560	–	–	–	18,560	18,560
Amount due to holding company	–	11,837	–	–	–	11,837	11,837
Amount due to holding company *(Note)*	4.35	20,000	–	–	–	20,000	20,000
		51,495	–	–	–	51,495	51,495

Note: The amount due to holding company is unsecured, interest bearing and repayable on demand as at 31 December 2017.

24. Reconcilation of liabilities arising from financing activities

The table below details changes in the Nanhong's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Nanhong's statement of cash flows as cash flows from financing activities.

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Amount due to holding company			
Interest expense	–	–	870

25. Related party transactions

Apart from the amounts due from/to fellow subsidiaries and holding company as set out in note 14, Nanhong entered into the following significant transactions with its related companies and group companies:

Relationship	Transaction	Year ended 31 December 2015	2016	2017
		RMB'000	*RMB'000*	*RMB'000*
Holding company	Purchase of raw materials	1,468	6,355	166
	Salaries and other benefits	340	378	314
Fellow subsidiaries	Rental income	640	5,091	14,719
	Revenue from sales of raw materials	73,228	50,412	1,403
	Purchase of raw materials	10,352	6,780	–
	Interest expense	–	–	870

Compensation of key management personnel

The directors are of the opinion that the key management personnel were solely the directors. Details of whose emolument, are set out in Note 12 (a).

26. Subsequent financial statements

No audited financial statement of Nanhong has been prepared in respect of any period subsequent to 31 December 2017 and up to the dates of this report.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis on the Target Company and Gaoyao and the Supplier Target for the years ended 31 December 2015, 2016 and 2017 (the "**Review Period**"). The following Historical Financial Information is based on the audited financial information of the Target Company and Gaoyao and the Supplier Target as set out in Appendix II and Appendix III to this circular, respectively.

Business and operations of the Target Group

The Target Company serves as a central management unit of the Target Group, while Gaoyao manufactures the explosive products and leases the whole of the civil explosive manufacturing plant and equipment from the Supplier Target. The Target Company acquired major raw materials for its production of explosive products (i.e. ammonium nitrate and packaging materials) through the Supplier Target for the years ended 31 December 2015 and 2016. Since 2017, the Target Company has changed the procurement method (the "**New Procurement Method**") by ordering ammonium nitrate from several suppliers in Guangxi and Fujian provinces and packaging materials from Nanhai Chemical by its own to enhance efficiency. The aggregate amount of the Target Company's purchase of raw materials from the Supplier Target and Nanhai Chemical for the years ended 31 December 2015, 2016 and 2017 were approximately RMB74.1 million, RMB50.4 million and RMB21.0 million respectively. Given the New Procurement Method adopted since 2017 and the gradual decrease in the purchase of raw material from the Supplier Target and Nanhai Chemical during the Review Period, there is not expected to be reliance issues regarding the sourcing of raw materials of the Target Company.

During the Review Period, the Target Company acquired explosive products from Meixian and Hingning and sold those explosive products to its customer. The amount of purchase of explosive products from Meixian and Hingning for the years ended 31 December 2015, 2016 and 2017 were approximately RMB157.2 million, RMB152.7 million and RMB82.9 million respectively. According to the share transfers agreement signed on 6 February 2017, two shareholders of the Target Company, namely 401 Factory and Huawei, have transferred an aggregate of 49% equity interests of the Target Company to Nanhai Chemical. Having considered that (i) Meixian and Hingning have discontinued operations since the third quarter of 2017; (ii) Hingning was deregistered on 19 December 2017; and (iii) Meixian would be deregistered upon completion of the Capital Contribution, there is not expected to be any further transactions between the Target Company and Meixian and Hingning upon completion of the Capital Contribution.

The Target Company and Gaoyao sell finished goods of explosive products directly to its single customer which is a distributor namely Guangdong District Civil Explosive Equipment Specialty Company Limited*（廣東省民用爆破器材專賣公司）, a Licenced State-owned distributor of civil explosive products in the Guangdong province, which then distributes such finished goods to the sub-distributors of explosive products and/or the end users, as it is the market practice in the explosive products industry in the Guangdong province, and such distribution and delivery processes are in accordance with relevant industry laws and regulations in the PRC.

Profit margin of the Target Group could be mainly affected by a number of factors including (i) market supply and demand of explosive products; (ii) market supply and demand of ammonium nitrate; and (iii) and the economic conditions of the PRC. The gross profit margin of the Target Group exceeded 30% during the three years ended 31 December 2015, 2016 and 2017. However, there is no assurance that the price of explosive products as well as the price of ammonium nitrate will maintain at the current level in the future. In the event that the price of ammonium nitrate or other major production materials used in the Target Group's production increases significantly and the Target Group fails to shift the increase of costs to its customers, cost of production of the Target Group thus profit margin of the Target Group could also be affected.

BUSINESS AND FINANCIAL REVIEW OF THE TARGET COMPANY AND GAOYAO

The Target Company and Gaoyao are principally engaged in manufacturing and distributing of porous granular ammonium oil explosives（多孔粒狀銨油炸藥）, emulsion explosives（乳化炸藥）(the "**Explosives**") and industrial detonating cord（工業導爆索）. Set out below is the management discussion and analysis on the Target Company and Gaoyao.

Revenue

The following shows the amount of each significant category of revenue from continuing operation recognized by the Target Company and Gaoyao for the Review Period:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Explosives	177,785	184,927	193,145
Detonating cord	6,253	8,191	6,716
Total	**184,038**	**193,118**	**199,861**

* *For identification purpose only*

The revenue generated from manufacturing and distributing of the Explosives increased by approximately RMB7.1 million, or approximately 4.0%, from approximately RMB177.8 million for the year ended 31 December 2015 to approximately RMB184.9 million for the year ended 31 December 2016 and further increased by approximately RMB8.2 million, or approximately 4.4%, to approximately RMB193.1 million for the year ended 31 December 2017. Such increase of revenue generated from manufacturing and distributing of the Explosives during the Review Period was mainly attributable to the increase in number of the Explosives sold during the Review Period. The quantity of the Explosives sold was approximately 30.0 thousand tons, 31.5 thousand tons and 32.4 thousand tons for the year ended 31 December 2015, 2016 and 2017 respectively as a result of the increase in sales order from the Group's customers during the period. The revenue generated by the manufacturing and distributing of the detonating cord increased by approximately RMB1.9 million, or approximately 31.0%, from approximately RMB6.3 million for the year ended 31 December 2015 to approximately RMB8.2 million for the year ended 31 December 2016 and decreased by approximately RMB1.5 million, or approximately 18.0%, to approximately RMB6.7 million for the year ended 31 December 2017. The increase of revenue generated from manufacturing and distributing of the detonating cord in 2016 was mainly attributable to the increase of the detonating cord sold for the year ended 31 December 2016 and the decrease of revenue generated from manufacturing and distributing of the detonating cord in 2017 was mainly attributable to the decrease of the detonating cord sold for the year ended 31 December 2017.

Net profit

The profit for the year and attributable to owners of the Target Company and Gaoyao for the year ended 31 December 2016 was approximately RMB2.4 million, as compared with the net profit after taxation of approximately RMB16.3 million for the year ended 31 December 2015. Such decrease was primarily due to an increase in selling expenses of approximately RMB10.5 million for the year ended 31 December 2016 as a result of an increase in transportation costs of approximately RMB10.5 million in relation to the delivery of Explosives. Such increase in transportation costs was mainly attributed to an increase in the price of each trip to maintain a reasonable profit margin of the transportation services provider after the renewal of the transportation service agreement.

The profit for the year and attributable to owners of the Target Company and Gaoyao for the year ended 31 December 2017 was approximately RMB15.0 million, as compared with the net profit after taxation of approximately RMB2.4 million for the year ended 31 December 2016. Such increase was primarily due to an increase in revenue generated from the Explosives of approximately RMB8.2 million and a decrease in administrative expenses of approximately RMB12.5 million. Such decrease in administrative expenses was mainly attributed to a decrease in labour costs by approximately RMB8,362,000 as a result of the implementation of stringent cost control measures by reducing redundant manpower to enhance productivity and efficiency of the Target Company.

Liquidity and financial resources

As at 31 December 2015, 2016 and 2017, the Target Company and Gaoyao had (i) trade and other receivables of approximately RMB20.5 million, RMB8.4 million and RMB7.4 million respectively; and (ii) cash and cash equivalents of approximately RMB11.5 million, RMB21.7 million and RMB30.3 million respectively.

As at 31 December 2015, 2016 and 2017, the Target Company and Gaoyao's current ratio (calculated by current assets divided by current liabilities) was approximately 3.3 times, 3.5 times and 1.3 times respectively.

As at 31 December 2015, 2016 and 2017, the Target Company and Gaoyao had borrowings of approximately nil, nil and RMB20.0 million respectively other than normal trade debts and the gearing ratios (being total borrowings over the total assets) were approximately nil, nil and 31.5% respectively. The borrowings as at 31 December 2017 was denominated in RMB with fixed rate of 4.35% issued by shareholders and repayable on demand as at 31 December 2017.

Foreign exchange management

The Target Company and Gaoyao were a limited liability company incorporated in the PRC and most of their monetary assets, liabilities, incomes and expenses were denominated in RMB. Therefore, the management did not consider that the Target Group and Gaoyao were exposed to any significant foreign currency exchange risks. The Target Company and Gaoyao did not use any derivative financial instruments for hedging purposes during the Review Period.

Funding and treasury policy

The Target Company and Gaoyao adopt a prudent funding and treasury policy towards their overall business operations with an aim to minimise financial risks. Future projects will be financed by cash flows from operations or capital raised by means of equity financing.

Capital commitment

As at 31 December 2015, 2016 and 2017, the Target Company and Gaoyao had no capital commitment.

Significant investment, material acquisition and disposals

The Target Company and Gaoyao did not have any significant investments, material acquisition or disposal for the Review Period.

Contingent liabilities

As at 31 December 2015, 2016 and 2017, the Target Company and Gaoyao did not have any significant contingent liabilities.

Charge on assets

Saved for the below, the Target Company and Gaoyao did not have any charge on assets as at 31 December 2015, 2016 and 2017.

Employee information

As at 31 December 2017, the Target Company and Gaoyao had 369 employees (including directors).

Remuneration policy

The Target Company and Gaoyao recruit, employ, promote and remunerate their employees based on their qualification, experience, skills, performances and contributions. Remuneration is also determined with reference to, among others, the market trend. Other benefits include social insurance and allowance. Bonus to the employees of the Target Company and Gaoyao was determined after taking into accounts the results of the Target Company and Gaoyao and the performance of employees. During the year ended 31 December 2015, 2016 and 2017, remuneration paid to the employees of the Target Company and Gaoyao were approximately RMB49.0 million, RMB49.5 million and RMB41.9 million respectively.

BUSINESS AND FINANCIAL REVIEW OF THE SUPPLIER TARGET

The Supplier Target owns the civil explosive manufacturing plant and equipment and leases them to the Target Company and Gaoyao. Set out below is the management discussion and analysis on the Supplier Target.

Revenue

The revenue of the Supplier Target decreased by approximately RMB18.4 million, or approximately 24.9%, from approximately RMB73.9 million for the year ended 31 December 2015 to approximately RMB55.5 million for the year ended 31 December 2016 and further decreased by approximately RMB39.4 million, or approximately 71.0%, to approximately RMB16.1 million for the year ended 31 December 2017. Such decrease of revenue during the Review Period was mainly attributable to the decreasing of provision of material procurement services to the Target Company during the Review Period. The Supplier Target provided procurement of raw material service to the Target Company for the years ended 31 December 2015 and 2016. Since 2017, the Target Company has adopted the New Procurement Method and the Supplier Target has ceased to provide procurement services to Gaoyao.

Net profit

The net loss after taxation of the Supplier Target for the year ended 31 December 2016 was approximately RMB0.2 million, as compared with the net loss after taxation of approximately RMB3.5 million for the year ended 31 December 2015. Such decrease was primarily due to a decrease in revenue for the year ended 31 December 2016 as a result of the decrease in revenue as mentioned above.

The net profit after taxation of the Supplier Target for the year ended 31 December 2017 was approximately RMB1.9 million, as compared with the net loss after taxation of approximately RMB0.2 million for the year ended 31 December 2016. It was primarily due to a decrease in revenue for the year ended 31 December 2017 as a result of the decrease in revenue as mentioned above.

Liquidity and financial resources

As at 31 December 2015, 2016 and 2017, the Supplier Target had (i) amount due from fellow subsidiaries of approximately RMB1.3 million, RMB8.4 million and nil respectively; and (ii) cash and cash equivalents of approximately RMB4.8 million, RMB3.5 million and RMB1.8 million respectively.

As at 31 December 2015, 2016 and 2017, the Supplier Target's current ratio (calculated by current assets divided by current liabilities) was approximately 0.11 time, 0.19 times and 0.04 times respectively.

The Supplier Target had no borrowings as at 31 December 2015, 2016 and 2017. No gearing ratios (being total borrowings over the total assets) were available as at 31 December 2015, 2016 and 2017.

Foreign exchange management

The Supplier Target is a limited liability company incorporated in the PRC and most of its monetary assets, liabilities, incomes and expenses were denominated in RMB. Therefore, the management did not consider that the Supplier Target was exposed to any significant foreign currency exchange risks. The Supplier Target did not use any derivative financial instruments for hedging purposes during the Review Period.

Funding and treasury policy

The Supplier Target adopts a prudent funding and treasury policy towards their overall business operations with an aim to minimise financial risks. Future projects will be financed by cash flows from operations or capital raised by means of equity financing.

Capital commitment

As at 31 December 2015, 2016 and 2017, the Supplier Target had capital commitment of approximately RMB645,000, RMB140,000 and RMB12,000 respectively.

Significant investment, material acquisition and disposals

The Supplier Target did not have any significant investments, material acquisition or disposal for the Review Period.

Contingent liabilities

As at 31 December 2015, 2016 and 2017, the Supplier Target did not have any significant contingent liabilities.

Charge on assets

Saved for the below, the Supplier Target did not have any charge on assets as at 31 December 2015, 2016 and 2017.

Employee information

As at 31 December 2017, the Supplier Target had 5 employees (including directors).

Remuneration policy

The Supplier Target recruit, employ, promote and remunerate their employees based on their qualification, experience, skills, performances and contributions. Remuneration is also determined with reference to, among others, the market trend. Other benefits include social insurance and allowance. Bonus to the employees of the Supplier Target was determined after taking into accounts the results of the Supplier Target and the performance of employees. During the year ended 31 December 2015, 2016 and 2017, remuneration paid to the employees of the Supplier Target were approximately RMB340,000, RMB378,000 and RMB314,000 respectively.

Prospects and future developments in the business of the Target Company and Gaoyao and the Supplier Target

The Group is principally engaged in hotel investment, management and operation, property investments in both properties held for sale and investment properties, and wellness elderly care business. Through its joint ventures and associates, the Group also participates and invests in fast-growing sectors, including the electric utilities as well as, financial leasing in the PRC.

The entering into of the Capital Contribution Agreement will enable the Group to tap into the business of manufacturing of the explosive products in the PRC which is a rare business opportunity to the Group, as certain special licenses are required for the production of the explosive products in the PRC. Taking into the historical financial performance of the Target Group, the entering into of the Capital Contribution Agreement is expected to provide the Group with a stable and recurring revenue source as well as enhance its asset base. In addition, the hotel business had recorded the unsatisfactory operating performance in recent years due to intense competition, changes in the marketing environment of the hotel industry and the consumption patterns in the market and rising operating costs. Although Guilin Plaza Hotel had carried out a comprehensive renovation in business model in order to adapt to market changes, it is also beneficial for the Group to best utilize its resources to diversify its existing business portfolio and engage in a new line of business with growth potential.

Due to the strong growth of construction of infrastructure and real estate in the PRC, the demand for the explosive products will continue to grow. In the past, the Target Group mainly sold its explosive products to customers in Guangdong Province. With the international exposure, established business networks and years of all-rounded business management experience of the Group, the Target Group could expand its customer base to other regions in the PRC and source material from a boarder range of suppliers, which could enhance the operational efficiency of the Target Group and unlock the potential of its business in future, and in turn enhance the Group's profitability and in the best interests of the Company and the Shareholders as a whole.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

(i) Basis of preparation of the unaudited pro forma financial information of the Group

The following unaudited pro forma financial information of the Group comprising the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows (collectively referred to as the "Unaudited Pro Forma Financial Information") has been prepared in accordance with paragraph 4.29 of the Listing Rules based on:

(a) the consolidated statement of financial position of the Group as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 and the consolidated statement of cash flows for the year ended 31 December 2017 which have been extracted from the Company's published annual report for the year 2017; and

(b) after taking into account of the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the proposed capital contribution for 49% of the enlarged equity interests of the Target Company (the "Transaction") on the Group's financial position as at 31 December 2017 might have affected the historical financial information in respect of the Group as if the Transaction had been completed on 31 December 2017 for the unaudited pro forma consolidated statement of financial position and as if it had taken place on 1 January 2017 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows.

The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the financial information contained in this circular and the accountants' reports on the Target Company and the Supplier Target as set out in Appendices II and III to this circular.

The Unaudited Pro Forma Financial Information of the Group has been prepared by the Directors of the Company based on a number of assumptions, estimates and uncertainties for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Group as at the specified dates, where applicable, or any future dates.

UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION

	The Group as at 31 December 2017	Proforma adjustments		Proforma total of the Group as at 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	
Non-current assets				
Investment properties	232,525	–	–	232,525
Property, plant and equipment	283,080	–	–	283,080
Interests in associates	745,571	162,786	–	908,357
Available for sale financial asset	9,172	–	–	9,172
	1,270,348	162,786	–	1,433,134
Current assets				
Properties held for sale	47,820	–	–	47,820
Inventories	494	–	–	494
Trade and other receivables	7,926	–	–	7,926
Pledged bank deposit	63,963	–	–	63,963
Cash and cash equivalents	886,861	(162,786)	(5,500)	718,575
	1,007,064	(162,786)	(5,500)	838,778
Current liabilities				
Trade and other payables	130,852	–	–	130,852
Tax payables	7,137	–	–	7,137
Borrowings	624,298	–	–	624,298
	762,287	–	–	762,287
Net current assets	244,777	(162,786)	(5,500)	76,491
Total assets less current liabilities	1,515,125	–	(5,500)	1,509,625

	The Group as at 31 December 2017	Proforma adjustments		Proforma total of the Group as at 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	
Capital and reserves				
Share capital	171,233	–	–	171,233
Reserves	849,001	–	(5,500)	843,501
Equity attributable to owners of the Company	1,020,234	–	(5,500)	1,014,734
Non-controlling interests	157,625	–	–	157,625
Total Equity	1,177,859	–	(5,500)	1,172,359
Non-current liabilities				
Borrowings	185,965	–	–	185,965
Convertible notes	135,586	–	–	135,586
Deferred tax liabilities	15,715	–	–	15,715
	337,266	–	–	337,266
	1,515,125	–	(5,500)	1,509,625

PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	The Group as at 31 December 2017	Proforma adjustments		Proforma total of the Group as at 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 4*	*Note 3*	
Continuing operations				
Revenue	29,846	–	–	29,846
Cost of sales and services	(22,551)	–	–	(22,551)
Gross profit	7,295	–	–	7,295
Other operating income	12,741	–	–	12,741
Selling and distribution costs	(123)	–	–	(123)
Administrative expenses	(53,623)	–	(5,500)	(59,123)
Net gain on disposal of investment property	14,472	–	–	14,472
Share of profit of associates	75,494	8,247	–	83,741
Increase in fair value of investment properties	1,094	–	–	1,094
Finance costs	(25,449)	–	–	(25,449)
Profit before taxation	31,901	8,247	(5,500)	34,648
Income tax expenses	(4,271)	–	–	(4,271)
Profit/(loss) for the year	27,630	8,247	(5,500)	30,377

	The Group as at 31 December 2017	Proforma adjustments		Proforma total of the Group as at 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 4*	*Note 3*	
Other comprehensive income/ (expense), net of income tax				
Items that will not be reclassified to profit or loss:				
Surplus on revaluation of hotel properties	2,818	–	–	2,818
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations	6,544	–	–	6,544
Share of exchange difference of associates	49,690	–	–	49,690
Other comprehensive income/ (expense) for the year, net of income tax	59,052	–	–	59,052
Total comprehensive income/ (expense) for the year	86,682	8,247	(5,500)	89,429

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS

	The Group as at 31 December 2017	Proforma adjustments			Proforma total of the Group as at 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4*	*Note 3*	
Operating activities					
Profit for the year	27,630	–	8,247	(5,500)	30,377
Adjustment for:					
Interest income	(3,015)	–	–	–	(3,015)
Interest expense	25,449	–	–	–	25,449
Income tax expenses	4,271	–	–	–	4,271
Increase in fair value of investment properties	(1,094)	–	–	–	(1,094)
Share of profit of associates	(75,494)	–	(8,247)	–	(83,741)
Net gain on disposal of investment properties	(14,472)	–	–	–	(14,472)
Loss/(gain) on disposal of property, plant and equipment	928	–	–	–	928
Depreciation of property, plant and equipment	10,556	–	–	–	10,556
Impairment loss on trade and other receivables	240	–	–	–	240
Net foreign exchange gain	(8,775)	–	–	–	(8,775)
Operating cash flow before movements in working capital	(33,776)	–	–	(5,500)	(39,276)
Decrease in inventories	287	–	–	–	287
Decrease in properties held for sale	7,208	–	–	–	7,208
Increase in trade and other receivables	(2,772)	–	–	–	(2,772)
Increase in trade and other payables	18,987	–	–	–	18,987
Cash used in operations	(10,066)	–	–	(5,500)	(15,566)
Tax paid	(6)	–	–	–	(6)
Net cash used in operating activities	(10,072)	–	–	(5,500)	(15,572)

	The Group as at 31 December 2017	Proforma adjustments			Proforma total of the Group as at 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4*	*Note 3*	
Investing activities					
Purchase of property, plant and equipment	(42,695)	–	–	–	(42,695)
Addition to investment properties	(5,991)	–	–	–	(5,991)
Decrease in time deposits with more than three months to maturity when placed	16,741	–	–	–	16,741
Dividend received	777	–	–	–	777
Placement of pledged bank deposit	(63,963)	–	–	–	(63,963)
Interest received	3,331	–	–	–	3,331
Net proceeds from disposal of property, plant and equipment	548	–	–	–	548
Net proceeds from disposal of investment properties	33,472	–	–	–	33,472
Capital contribution to Target Company	–	(162,786)	–	–	(162,786)
Net cash (used in)/generated from investing activities	(57,780)	(162,786)	–	–	(220,566)
Financing activities					
Capital injection from non-controlling interests	159,890	–	–	–	159,890
Interest paid	(9,794)	–	–	–	(9,794)
Repayment of bank loan	(10,441)	–	–	–	(10,441)
Proceeds from borrowings	674,801	–	–	–	674,801
Net cash generated from/(used in) financing activities	814,456	–	–	–	814,456
Net increase/(decrease) in cash and cash equivalents	746,604	(162,786)	–	(5,500)	578,318
Cash and cash equivalents at 1 January	134,356	–	–	–	134,356
Effect of foreign exchange rates changes	5,901	–	–	–	5,901
Cash and cash equivalents at 31 December	886,861	(162,786)	–	(5,500)	718,575
Analysis of the balances of cash and cash equivalents, being:					
Bank balances and cash	886,861	(162,786)	–	(5,500)	718,575

Note:

1. The unadjusted audited consolidated statement of financial position of the Group as at 31 December 2017, the unadjusted audited consolidated statement of profit or loss and other comprehensive income and the unadjusted audited consolidated cash flow statement of the Group for the year ended 31 December 2017 are extracted from the published annual report of the Group for the year ended 31 December 2017.

2. This adjustment represents the amount of RMB130,333,102.44, according to the Capital Contribution Agreement, that the Group has agreed to contribute to the capital of the Target Company, for 49% of the enlarged equity interests in the Target Company, as if the capital contribution had been completed on 31 December 2017 for the unaudited pro forma consolidated statement of financial position and on 1 January 2017 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated cash flow statement for the relevant period.

3. The adjustment represents expenditures incurred directly in connection with the Transaction including accountants' fees, legal fees, printing costs, and other related expenses to be borne by the Group of approximately HK$5,500,000. The adjustment has no continuing effect to the consolidated statement of financial position of the Group but will be reflected in the consolidated statement of profit or loss and other comprehensive income of the Group in the year these expenses are actually incurred.

4. These adjustments represent the share of the operating results of the Target Group for the year ended 31 December 2017 (but excluding the discontinued operations), as if the capital contribution to Target Company and the acquisition of the Supplier Target by the Target Company had been completed on 1 January 2017. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group' share of the profit or loss and other comprehensive income of the Target Group. These adjustments have continuing effect to the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income of the Group in subsequent years. Figures are extracted from financial information of this circular in Appendix II & III as follows:

	RMB'000
Target Company's Profit for the year from continuing operation (figures are extracted from financial information of this circular in Appendix II)	11,624
Supplier Target's Profit for the year (figures are extracted from financial information of this circular in Appendix III)	1,851
	13,475
share of profit:	49%
	6,603
exchange rate:	@1.249
	HK$'000
	8,247

5. If the Target Company fails to acquire the Supplier Target and the Group exercises the Sale Option to require Nanhai Chemical to acquire all its equity interests in the Target Company at a consideration of approximately HK$165,105,745 (the "Consideration"), and after netting off the expenditures incurred directly in connection with the Transaction in an amount of HK$5,500,000, the net impact would result in a loss of HK$3,180,000 to be recognised in profit or loss.

   The Consideration consist of the cost of investment of RMB 130,333,102 plus a premium calculated at 20% above the prevailing RMB benchmark rate for a one year loan published by The People's Bank of China (currently 4.75%) .

2. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, HLM CPA Limited.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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The Board of Directors
China Investments Holdings Limited
Unit 501, Wing On Plaza,
62 Mody Road, Tsimshatsui,
Kowloon, Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Investments Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") by the directors of the Company (the "Director") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2017, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017, the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2017 and the related notes of the circular issued by the Company dated 9 May 2018 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in Appendix V of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed capital contribution for 49% of the enlarged equity interests of the Target Company (the "Transaction") on the Group's financial position as at 31 December 2017 and the Group's financial performance and cash flows for the year ended 31 December 2017 as if the Transaction had taken place at 31 December 2017 and 1 January 2017 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2017, on which auditor's report has been issued.

DIRECTORS' RESPONSIBILITIES FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

OUR INDEPENDENCE AND QUALITY CONTROL

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

Our firm applies Hong Kong Standard on Quality Control 1"Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANT'S RESPONSIBILITIES

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

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

REPORTING ACCOUNTANT'S RESPONSIBILITIES (CONTINUED)

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

The purpose of unaudited pro forma financial information included in a circular or prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2017 or 1 January 2017 would have been as presented.

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

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

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

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

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

OPINION

In our opinion:

(a) The unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

HLM CPA Limited
Certified Public Accountants
Ng Fai Fiona
Practicing Certificate Number P4986
Hong Kong, 9 May 2018

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from Associated Surveyors & Auctioneers Ltd, an independent valuer, in connection with its valuation as at 31 January, 2018 of the property interest of the Supplier Target.

9 May, 2018

China Investments Holdings Limited
Unit 501, Wing On Plaza
62 Mody Road, Tsimshatsui
Kowloon
Attn: The Board of Directors

Dear Sirs,

Re: Valuation of 廣東南虹化工有限公司 (Guangdong Nanhong Chemical Co., Ltd.)

We refer to the instructions of China Investments Holdings Limited (the "Company") for us to express an independent opinion of the market values of the identifiable tangible assets (the "Subject Items") belonging to 廣東南虹化工有限公司 (the "Nanhong") in the People's Republic of China (the "PRC") as at 31 January, 2018 (the "Valuation Date").

The business of Nanhong located at 肇慶市高要區蓮塘鎮 Gao Yao District, Zhaoqing City, Liantang Town, Guangdong Province, the PRC.

We confirmed that the site inspection was conducted by Mr. Aaron C K Wan on 7 and 8 March, 2018 and we made relevant enquiries and obtained such further information as we consider necessary to support our opinion on the market values of the property interests as at 31 January, 2018 for the purpose of incorporation in the circular of the Company dated 9 May, 2018 in relation to a major transaction of the Company.

Basis of Valuation

The value of the Subject Items has been arrived at on the basis of "Fair Value" in the premise of continued use which, in our appraisal, reflects the future economic benefit to be derived from the ownership of the assets of Nanhong. Fair Value is defined as the estimated amount at which an asset might be expected to exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The definition of fair value adopted in this valuation report is similar and/or interchangeable with definitions of the valuation standards below:

Market Value

According to the "HKIS Valuation Standards (2012 Edition)" published by The Hong Kong Institute of Surveyors ("HKIS"). In the HKIS Valuation Standards, the Market Value is defined as the estimated amount for which an asset (a property) should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

Fair Market Value

The International Valuation Glossary defines fair market value as the amount at which an asset would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

In arriving at our assessed value for the Subject Items, we have considered three generally approaches, namely market approach, net asset value approach and income approach. In our opinion, the income approach is inappropriate for valuing the Subject Items due to insufficient financial data being available and the future benefit of Nanhong cannot be ascertained. We therefore relied solely on the market and net asset value approach, in determining our opinion of value.

During the valuation process, we considered that Direct Comparison Approach is the most appropriate valuation method in assessing the Market Values of the Leasehold land use rights and all other identifiable assets items. This approach makes reference to comparable transactions as available in the relevant market within the same locality. We have identified and selected comparables with similar characteristics and consider that the comparables selected are the most appropriate ones for our further analysis. In our valuations, appropriate adjustments and analysis are considered in terms of differences in location, size, etc. between the selected comparables and the subject property.

In valuing of the Property Structures without an active secondary market, we consider that Depreciated Replacement Cost ("DRC") Approach is the most appropriate valuation method in assessing the Market Value. This approach is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements less allowance for physical deterioration and all relevant forms of obsolescence and optimization. Because of the characteristics of the property being valued, that is a factory complex for the business of Nanhong in the PRC, we note that there is lack of market transaction and comparable of this type of property. Hence, the DRC Approach is used in our valuation. When using the DRC Approach, we have assumed that the Property Structures being valued are subject to adequate potential profitability of the business having due regard to the total assets employed.

As part of our analysis, we have been furnished with information from the Company and Nanhong regarding the subject business. We have relied to a considerable extent on such information in arriving at our opinion of value.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on our use of numerous assumptions and our consideration of various factors that are relevant to the operation of Nanhong. We have also considered various risks and uncertainties that have potential impact on the business. Further, while the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and us.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Based on the results of our investigation and analyses outlined in this report, we are of the opinion the market values of the identifiable tangible assets which have been valued in Reminbi ("RMB") as at the Valuation Date are as follows:

Land Use Rights Number	Location Name	Location Address	Lot number	Land Use	Area (m²)	Market Value (RMB)
高要國用 (2016) 第01862號	肇慶市高要區蓮塘鎮鎮安村委會	肇慶市高要區蓮塘鎮鎮安村委會	441283109201GB99956	Residential	3,978.00	2,260,000.00
高要國用 (2016) 第01865號	肇慶市高要區蓮塘鎮荔枝村	肇慶市高要區蓮塘鎮荔枝村	441283109205GB99995	Industrial	140,462.40	40,800,000.00
高要國用 (2016) 第00698號	肇慶市高要區蓮塘鎮荔枝村委會荔枝村	肇慶市高要區蓮塘鎮荔枝村委會荔枝村	441283109205GB99998	Industrial	110,089.90	32,000,000.00
高要國用 (2016) 第00703號	肇慶市高要區蓮塘鎮荔枝村委會荔枝村	肇慶市高要區蓮塘鎮荔枝村委會荔枝村	441283109205GB99997	Industrial	53,988.80	15,700,000.00
高要國用 (2016) 第00704號	肇慶市高要區蓮塘鎮荔枝村委會荔枝村	肇慶市高要區蓮塘鎮荔枝村委會荔枝村	441283109205GB99996	Industrial	53,988.80	15,700,000.00
高要國用 (2016) 第01863號	肇慶市高要區蓮塘鎮羅勒村	肇慶市高要區蓮塘鎮羅勒村	441283109210GB99998	Storage	74,198.30	21,500,000.00
高要國用 (2016) 第00705號	肇慶市高要區蓮塘鎮鎮安村委會土名「下崗夾」	肇慶市高要區蓮塘鎮鎮安村委會土名「下崗夾」	441283109201GB99969	Industrial	4,423.30	1,150,000.00
Land Use Rights					441,129.50	129,110,000.00
Property Structures					25,035.25	30,141,000.00

According to 7 various state-owned Laud Use Rights Certificates issued by the People's Government of Zhaoqing, the legally interested party in 7 parcels of land having a total site area of approximate by 441,129.50 sq. m. is Nanhong. The land use rights were granted for a term ranging from 50 years to 70 years and will be expired from 2044 to 2072 and are for industrial manufacturing, storage, ancillary office and other supporting purpose use.

The Property Structures is mainly comprised of 56 various major buildings and structures. According to 56 various Realty Title Certificates issued to Nanhong by the Bureau of Housing and Urban Rural Development of Zhaoqing, the legal interest parties owning the 56 various buildings of property having a total gross floor area of approximately 25,035.25 sq. m^2, and they were built from 2003 to 2015.

According to the instructing party, the Property Structures are leased for explosives manufacturing, storage, ancillary office and other supporting purposes and is subject a tenancy for the period from 1 January 2018 to 31 December 2018 at a monthly rental of RMB30,000.

We have been provided with copies of the title documents. However due to the nature of the land registration system in the PRC, we cannot ensure searches to verify ownership and encumbrances or to ascertain the subsequent amendments, if any, which may not appear on the copies handed to us. As we are not a legal professional, we are not in a position to ascertain the legal title of the property. We have relied on the legal opinions provided by the PRC legal adviser of the Group, GuangDong JunHou Law Firm（廣東君厚律師事務所）, in respect of the title of the property and other matters in relation to the property.

Yours faithfully,
For and on behalf of
Associated Surveyors & Auctioneers Ltd

Aaron C K Wan, *BBS, JP*
FRICS, ACI Arb., FIAA., AIBA., M.Land Inst., EMBA (CUHK), MBS (HKU)

Note: Mr. Wan Chi Keung, Aaron is a fellow of The Royal Institution of Chartered Surveyors. He has over 40 years of experience in valuation in Hong Kong, Macau and the PRC.

Unit A1-3, 10th Floor, Summit Building,
No. 30 Man Yue Street,
Hunghom, Kowloom

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives of the Company were taken or deemed to have pursuant to Divisions 7 and 8 of Part XV of the SFO), or (ii) entered in the register required to be kept under Section 352 of the SFO or (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") adopted by the Company were as follows:

Long positions in the Shares

Name of Director	Capacity	Nature of interest	Number of Shares held	Approximate percentage of total issued Shares as at the Latest Practicable Date[1]
He Xiangming	Beneficial owner	Personal	1,441,000	0.08%

Notes:

1. The percentage was calculated based on 1,712,329,142 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its assoiated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives of the Company were taken or deemed to have pursuant to Divisions 7 and 8 of Part XV of the SFO), or which were entered in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests and short positions of the Shareholders in the Shares, underlying Shares of the Company

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the interests and short positions of the Shareholders (other than directors or chief executives of the Company) who had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were entered in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:–

Name of Shareholder	Capacity of Shareholder	Number of Shares/ underlying Shares		Approximate percentage of total issued Shares as at the Latest Practicable Date[1]
		Long position	Short position	
廣東南海控股投資有限公司 (Guangdong Nanhai Holding Investment Co., Ltd.*)	Corporate interest	1,426,439,842[2]	–	83.30%
Nam Keng Van Investment Company Limited	Beneficial owner	121,864,487[3]	–	7.12%
Cui Guo Jing	Corporate interest	121,864,487[3]	–	7.12%
Pu Jian Qing	Corporate interest	121,864,487[3]	–	7.12%

Notes:

1. The percentage was calculated based on 1,712,329,142 Shares in issue as at the Latest Practicable Date.

2. These 1,426,439,842 Shares comprises (i) 1,207,713,527 Shares held by Prize Rich Inc. which was wholly-owned by 廣東南海控股投資有限公司 (Guangdong Nanhai Holding Investment Co., Ltd.*); and (ii) 218,726,315 new Shares to be allotted and issued by the Company to Prize Rich Inc. upon the exercise of conversion rights attaching to the convertible bonds issued by the Company to Prize Rich Inc. pursuant to an acquisition agreement as part of the consideration.

3. These 121,864,487 Shares were held by Nam Keng Van Investment Company Limited which was wholly-owned by Mr. Cui Guo Jian and Mr. Pu Jian Qing equally.

Saved as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any person (other than Directors and chief executives of the Company) who had interests or short positions in the Shares and underlying Shares under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were entered in the register required to be kept under Section 336 of the SFO.

As at the Latest Practicable Date, no Director or proposed Director is a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or his or her respective close associates was considered to have an interest in a business which competes or was likely to compete, either directly or indirectly, with the business of the Group other than those business to which the Directors or his or her close associates were appointed to represent the interests of the Company and/or the Group.

4. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date,

(a) none of the Directors were materially interested in any contract or arrangement subsisting and which was significant in relation to the business of the Group; and

(b) none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up.

5. MATERIAL CONTRACTS

The following are contracts entered into by the members of the Group within the two years immediately preceding the date of this circular and which is or may be material:

(a) the provisional sale and purchase agreement dated 25 July 2017 entered into among Greenswood Property Limited (建和物業有限公司) ("**Greenswood**") (an indirect wholly-owned subsidiary of the Company) as vendor, China Queen Investment Limited (中崑投資有限公司) ("**China Queen**") as purchaser and Flourish Property Agency (C. I. S.) Limited as the selling agent, pursuant to which Greenswood has agreed to sell Portion A on the Ground Floor of Kai Yip Factory Building, Nos. 15-17 Sam Chuk Street, San Po Kong, Kowloon, Hong Kong to China Queen for the consideration of HK$33,800,000;

(b) the letter of intent dated 31 August 2017 entered into between China Investments Limited ("**CIL**") (a direct wholly-owned subsidiary of the Company) as vendor and LIN Zhongxing ("**LIN**") as purchaser, pursuant to which CIL agreed to sell and LIN agreed to purchase 33 offices and 4 shops located at Shantou Commercial Plaza, 106 Jinsha Road, Shantou of Guangdong Province in the PRC (the "**Properties**") and the tenancies of the Properties (if any) by way of disposal by CIL of the entire equity interest of 13 companies being the indirect wholly-owned subsidiaries of the Company incorporated in Hong Kong with limited liability and holding the Properties at the consideration of RMB39,500,000; as LIN has failed to settle any of the consideration payments despite repeated requests, a notice was served on LIN, terminating the letter of intent and reserving the right to seek compensation from LIN in respect of any loss suffered by the Group;

(c) the investment agreement dated 29 September 2017 entered into amongst CIL and T-Box Union (China) Financial Holdings Investments Limited ("**T-Box Holdings**") and T-Box Union Investments Limited ("**T-Box Investments**") in relation to the establishment of Xingye Homestay Inn Union Limited (re-named as China Select Small Hotel Union Limited) ("**Small Hotel Union**") to engage in the platform operation, investment and management of the homestay accommodation and hotels and other related business in the PRC, under which CIL will contribute HK$6,120,000 to Small Hotel Union (representing 51% of the total initial share capital), T-Box Holdings will contribute HK$3,600,000 (representing 30% of the total initial share capital) and T-Box Investments will contribute HK$2,280,000 (representing 19% of the total initial share capital);

(d) the joint venture agreement dated 16 November 2017 entered into amongst CIH Finance Investments Holdings Limited（中國興業金融投資控股有限公司）("**CIH Finance**"), a wholly-owned subsidiary of the Company and 佛山市南海金融高新區投資控股有限公司 (Nanhai Financial Hi-Tech Zone Investment Holdings Co., Ltd.*) ("**Nanhai Financial Hi-Tech Holdings**") in relation to the establishment of 廣東中岩泰科建設有限公司 (Guangdong Sino Rock Tyco Construction Co., Ltd.*) ("**Sino Rock Tyco**") pursuant to which CIH Finance has agreed to contribute an equivalent amount of RMB728,000,000 to Sino Rock Tyco, representing 80% of the total capital contributions; and

(e) the Capital Contribution Agreement.

6. LITIGATION

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

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group which is not determinable by the Group within one (1) year without payment of compensation (other than statutory compensation).

8. GENERAL

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(b) The branch share registrar of the Company is Tricor Progressive Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The Company's head office and principal place of business in Hong Kong is at Unit 501, Wing On Plaza, 62 Mody Road, Tsimshatsui, Kowloon, Hong Kong.

(d) The company secretary of the Company is Mr. Lo Tai On, who is a member of the Hong Kong Institute of Certified Public Accountants.

(e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

9. EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

Name	Qualification
Associated Surveyors & Auctioneers Ltd	Property valuer
HLM CPA Limited	Certified Public Accountants
GuangDong JunHou Law Firm	PRC Lawyers

Each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter or opinion as set out in this circular and references to its names in the form and context in which they appear in this circular.

As at the Latest Practicable Date, none of the experts above had any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the experts above had any interest, direct or indirect, in any asset which since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. (except Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at Unit 501, Wing On Plaza, 62 Mody Road, Tsimshatsui, Kowloon, Hong Kong from the date of this circular up to and including the date of the Second SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the respective accountants' reports of the Target Company and Gaoyao, and the Supplier Target from HLM CPA Limited as set out in Appendix II and III to this circular;

(c) the report on the unaudited pro forma financial information of the Group from HLM CPA Limited as set out in Appendix V to this circular;

(d) the valuation report from Associated Surveyors & Auctioneers Ltd as set out in Appendix VI to this circular;

(e) the annual reports of the Company for the financial years ended 31 December 2015, 2016 and 2017 respectively;

(f) the material contracts referred to in the section headed "Material contracts" in this appendix;

(g) the circular of the Company dated 9 May 2018 in respect of the proposed mandate in relation to the potential very substantial disposal through public tender; and

(h) this circular.

CHINA INVESTMENTS HOLDINGS LIMITED
中國興業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 132)

NOTICE OF SECOND SPECIAL GENERAL MEETING OF 2018

NOTICE IS HEREBY GIVEN THAT the second special general meeting of 2018 of China Investments Holdings Limited (the "**Company**") will be held at Luxembourg Room, 3rd Floor, Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 25 May 2018 at 10:50 a.m. (or such time immediately following the conclusion (or adjournment) of the first special general meeting of 2018 of the Company to be held on the same day and at the same place, whichever is later) to consider and if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:–

ORDINARY RESOLUTION

"**THAT**:

(a) the capital contribution agreement (the "**Capital Contribution Agreement**", a copy of which has been produced before the meeting marked "A" and initialed by the chairman of the meeting for identification purpose) dated 28 March 2018 entered into amongst 佛山市南海康美投資有限公司 (Foshan City Nanhai Canmanage Investments Holdings Limited*) ("**Nanhai Canmanage**"), a wholly-owned subsidiary of the Company, 佛山市南海區聯華資產經營管理有限公司 (Foshan City Nanhai District Lianhua Asset Operation & Management Co., Ltd*) ("**Nanhai Lianhua**"), 廣東省南海化工總廠有限公司 (Guangdong Nanhai Chemical Factory Co., Ltd.*) ("**Nanhai Chemical**"), and 廣東天諾民爆有限公司 (Guangdong Tiannuo Civil Explosives Co., Ltd.*) (the "**Target Company**"), in relation to the contribution of RMB130,333,102.44 and RMB5,319,718.47 to the capital of the Target Company respectively by Nanhai Canmanage and Nanhai Lianhua and all such acts and things as may be necessary, expedient or desirable for the purpose of or in connection with the implementation of or giving effect to the transactions by the Company and any of its subsidiaries contemplated thereunder or in connection therewith (including the grant of the Sale Option, as defined below) be and are hereby approved, confirmed and ratified; and

* *For identification purpose only*

(b) the transactions by the Company and any of its subsidiaries (including all such acts and things as may be necessary, expedient or desirable for the purpose of or in connection with the implementation of or giving effect to such transactions) pursuant to any exercise of the right granted to Nanhai Canmanage to require Nanhai Chemical to acquire all its equity interests in the Target Company with a consideration equivalent to the capital contribution amount paid by Nanhai Canmanage (together with interest on such amount at a rate equivalent to the benchmark loan interest rate for an one-year loan offered by the People's Bank of China plus 20%) ("**Sale Option**") as contemplated under the Capital Contribution Agreement, be and are hereby approved."

On behalf of
China Investments Holdings Limited
HE Xiangming
Chairman

Hong Kong, 9 May 2018

Head Office and Principal Place of Business:
Unit 501, Wing On Plaza,
62 Mody Road,
Tsimshatsui,
Kowloon, Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company but must attend the meeting in person to represent you.

2. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be lodged with the principal place of business of the Company at Unit 501, Wing On Plaza, 62 Mody Road, Tsimshatsui, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the proxy form shall not preclude any member from attending and voting at the meeting if the member so wishes and in such event, the proxy form shall be deemed to be revoked.

3. Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the meeting, the vote of the such holder so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall be deemed joint holders thereof.