
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Media China Corporation Limited (the “Company”), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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C O R P O R A T I O N L I M I T E D

華 億 傳 媒 有 限 公 司

MEDIA CHINA CORPORATION LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

**(1) VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF
YUAN SHUN INVESTMENTS LIMITED
INVOLVING ISSUE OF PROMISSORY NOTE
AND CONVERTIBLE NOTE
AND
(2) PROPOSED GRANT OF SPECIFIC MANDATE TO
ISSUE NEW SHARES**

Financial adviser to the Company



**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



**大有融資有限公司
MESSIS CAPITAL LIMITED**

A letter from the board of directors of the Company is set out on pages 7 to 56 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 57 to 58 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 59 to 126 of this circular.

A notice convening the EGM to be held on Thursday, 23 August 2012 at 10:30 a.m. at Falcon Room I, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong is set out on pages 217 to 219 of this circular.

Whether or not you intend to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Tricor Tengis Ltd., 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any adjournment thereof (as the case may be) should you so wish.

8 August 2012

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:

“Acquisition Agreement”	the conditional sale and purchase agreement dated 25 May 2012 made between the Purchaser and the Vendor in relation to the Proposed Acquisition as amended by the supplemental agreement dated 6 August 2012 entered into between the Purchaser and the Vendor, particulars of which were set out in the announcement of the Company dated 6 August 2012
“acting in concert”	has the meaning ascribed to this term under the Takeovers Code
“Announcement”	the announcement dated 25 May 2012 issued by the Company in relation to the Proposed Acquisition
“associates”	has the meaning ascribed to it in the Listing Rules
“Bayhood No. 9”	Beijing Bayhood No. 9 Business Hotel Limited* (北京北湖九號商務酒店有限公司), a company incorporated in PRC with limited liability, and is an indirect wholly-owned subsidiary of the Purchaser
“Bayhood No. 9 Club”	a membership-based luxury club managed by Bayhood No. 9 which comprises of business hotel facilities, an 18-hole golf course, driving range facilities, theme restaurants and cafes, spa facilities, retail shops, and the first PGA branded and managed golf academy in Asia
“北京朝來 (Beijing Chao Lai*)”	北京朝來足球活動中心 (Beijing Chao Lai Football Activities Centre*), a collective enterprise incorporated in PRC which has been granted the development and operation rights of the Subject Land and the right to apply for the land use right of the Subject Land by the Villagers’ Committee
“Beijing Chao Lai Consent Letter”	the consent letter issued by Beijing Chao Lai consenting to the execution of the Second Cooperation Agreement
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday, Sunday or a public holiday and a day on which a tropical cyclone warning signal number 8 or above or a black rainstorm warning is hoisted in Hong Kong between 9:00 a.m. to 5:00 p.m.) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands
“Company”	Media China Corporation Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange

DEFINITIONS

“Completion”	completion of the Proposed Acquisition in accordance with the terms and conditions of the Acquisition Agreement
“Completion Date”	within 5 Business Days following the date on which all the conditions precedent to the Acquisition Agreement have been fulfilled (or waived by the Purchaser) or such other date as the Purchaser and the Vendor may agree
“connected person(s)”	has the meaning ascribed to this term under the Listing Rules
“Consideration”	a consideration of HK\$900 million which was determined in the manner as described in the sub-paragraph headed “Consideration” of this circular and shall be payable by the Purchaser to the Vendor for the Proposed Acquisition pursuant to the payment terms as set out in the Acquisition Agreement
“Consolidated Share(s)”	ordinary share(s) of HK\$0.20 each in the share capital of the Company based on the assumption that the proposed Share Consolidation shall have become effective
“Conversion Period”	the period commencing from the issue date of the Convertible Note and ending at 4:00 p.m. on the Maturity Date (both dates inclusive)
“Conversion Price”	HK\$0.10 per Conversion Share (equivalent to approximately RMB0.0813 per Conversion Share at the fixed conversion rate of RMB1.00 equal to HK\$1.2302) subject to adjustments in accordance with the terms and conditions of the Convertible Note
“Conversion Rights”	the rights attached to the Convertible Note to convert the same or a part thereof into Conversion Shares pursuant to the terms and conditions of the Convertible Note
“Conversion Shares”	new Shares which fall to be allotted and issued by the Company following the exercise of the Conversion Rights attached to the Convertible Note at the Conversion Price and “Conversion Share” shall be construed accordingly
“Convertible Note”	the zero coupon convertible note in the amount of RMB569 million (equivalent to approximately HK\$700 million) to be issued by the Company in favour of the Vendor with the Conversion Rights attached to satisfy part of the Consideration pursuant to the Acquisition Agreement with the benefit of and subject to the conditions of the Convertible Note or, as the context may require, any part of the principal amount thereof
“Convertible Note Certificate”	the certificate to be issued in respect of the Convertible Note together with the Convertible Note Conditions

DEFINITIONS

“Convertible Note Conditions”	the terms and conditions of the Convertible Note to be attached to the Convertible Note Certificate with such attachments thereto
“Debentures”	collectively the Estate Giant Debenture, Smart Concept Debenture and Yuan Shun Debenture
“Director(s)”	directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Proposed Acquisition and the transactions contemplated thereunder, the issue of the Convertible Note, the issue of the Conversion Shares following the exercise of the Conversion Rights and the granting of the Specific Mandate
“Enlarged Group”	the Group and the Target Group after Completion
“Estate Giant Debenture”	a debenture created by the Hong Kong Company in favour of a financial institution in Hong Kong by way of a first fixed and floating charge over all the undertaking, property and assets of the Hong Kong Company
“First Cooperation Agreement”	the cooperation agreement dated 16 May 2008 entered into by Beijing Chao Lai and Zhou Hai Tong Da, whereby Zhou Hai Tong Da has been granted the right to develop and operate the Subject Land up to 31 May 2048
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Company”	Estate Giant Limited, a company incorporated in Hong Kong with limited liability on 11 July 2011, which is owned as to 100% by the Target Company and is the owner of 100% equity interest in the PRC Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee of the Company comprising Professor WEI Xin, Dr. WONG Yau Kar David JP, Mr. YUEN Kin and Mr. CHU Yuguo, independent non-executive Directors, established to advise the Independent Shareholders in respect of the Proposed Acquisition

DEFINITIONS

“Independent Financial Adviser”	Messis Capital Limited, a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity and the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders in respect of the Proposed Acquisition
“Independent Shareholder(s)”	Shareholder(s) other than the Vendor’s associates, Mr. Yuen and his associates, and any Shareholders who have a material interest in the Proposed Acquisition
“Latest Practicable Date”	6 August 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Committee”	has the meaning ascribed to this term under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2012 or such other date as may be agreed by the Purchaser and the Vendor in writing
“Maturity Date”	the day falling on the third anniversary from the date of issue of the Convertible Note
“Mr. Yuen”	Mr. YUEN Hoi Po, being a Director, the Chairman and a substantial shareholder of the Company, and is interested in the entire issued share capital of the Vendor
“Noteholder”	holder of the Convertible Note
“PRC”	the People’s Republic of China, which for the purpose of this circular only (unless otherwise indicated) excludes Hong Kong, Macau and Taiwan
“PRC Company”	北京北湖商務諮詢有限公司 (Beijing Beihu Business Consulting Company Limited*), a wholly-foreign owned enterprise established by the Hong Kong Company on 11 January 2012 in PRC with limited liability and being the wholly-owned subsidiary of the Hong Kong Company
“Preference Share(s)”	preference share(s) of HK\$0.01 each in the share capital of the Company. As at the Latest Practicable Date, no preference share is in issue
“Promissory Note”	the promissory note in the sum of HK\$150 million to be executed by the Purchaser in favour of the Vendor on Completion for the purpose of settling part of the Consideration under the Acquisition Agreement

DEFINITIONS

“Proposed Acquisition”	the proposed acquisition of the Sale Share by the Purchaser from the Vendor pursuant to the terms and subject to the conditions of the Acquisition Agreement
“Purchaser”	Unique Talent Group Limited, a company incorporated in BVI and a wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of PRC
“Sale Share”	1 ordinary share of US\$1.00 in the issued share capital of the Target Company, representing the entire issued share capital of the Target Company
“Second Cooperation Agreement”	the cooperation agreement dated 30 January 2012 entered into by Beijing Chao Lai and the PRC Company, whereby the PRC Company has been granted the right to develop and operate the Subject Land up to 31 May 2048
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Consolidation”	the proposed consolidation of every two (2) existing issued and unissued Shares into one (1) Consolidated Share as detailed in the circular of the Company dated 21 June 2012 and supplemented by the announcement of the Company dated 27 July 2012
“Shareholder(s)”	holder(s) of the Share(s) or Consolidated Share(s) (based on the assumption that the proposed Share Consolidation shall have become effective), as the context requires
“Smart Concept Debenture”	a debenture created by the Vendor in favour of a financial institution in Hong Kong by way of a first fixed and floating charge over all the undertaking, property and assets of the Vendor
“Specific Mandate”	a specific mandate for the Directors to issue the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Land”	580 acres (equivalent to approximately 387,000 square meters) of land located at 北京朝來足球活動中心 (Beijing Chao Lai Football Activities Centre*), which is adjacent to “Bayhood No. 9 Club”
“substantial shareholder”	has the meaning ascribed to this term under the Listing Rules
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“Target Company”	Yuan Shun Investments Limited, a company incorporated in BVI with limited liability on 9 June 2011
“Target Group”	the Target Company, the Hong Kong Company and the PRC Company
“trading day”	a day on which the Stock Exchange is open throughout its usual trading hours for the business of dealing in securities that are listed thereon and “trading days” shall be construed accordingly
“Vendor”	Smart Concept Enterprise Limited, a company incorporated in the BVI and a wholly-owned company of Mr. Yuen, the chairman and a substantial shareholder of the Company
“Villagers’ Committee”	the villagers’ committee of Beihuqu Village, Lai Guang Ying Xiang, Chaoyang District, Beijing (北京市朝陽區來廣營鄉北湖渠村), being the owner of the Subject Land as at the Latest Practicable Date
“Warrants”	the subscription rights as mentioned in the placing of unlisted warrants under general mandate announcement of the Company dated 19 December 2011. As at the Latest Practicable Date, 20,000,000 Warrants have been exercised into 20,000,000 new Shares. Warrants carrying aggregate subscription rights to subscribe for 530,000,000 Shares (or 265,000,000 Consolidated Shares based on the assumption that the proposed Share Consolidation shall have become effective) are outstanding
“Yuan Shun Debenture”	a debenture created by the Target Company in favour of a financial institution in Hong Kong by way of a first fixed and floating charge over all the undertaking, property and assets of the Target Company
“洲海通達 (Zhou Hai Tong Da)”	北京洲海通達國際貿易有限公司 (Beijing Zhou Hai Tong Da International Trading Company Limited*), a company incorporated in PRC which is a wholly-owned subsidiary of the Vendor
“Zhou Hai Tong Da Consent Letter”	the consent letter issued by Zhou Hai Tong Da consenting to the execution of the Second Cooperation Agreement
“%”	per cent.

Unless otherwise stated, translation of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.2302 for information purpose only. Such translation should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.

** The English translation of the names of companies established in PRC referred to in this circular is for reference only. The official names of those companies are in Chinese.*

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C O R P O R A T I O N L I M I T E D

華 億 傳 媒 有 限 公 司

MEDIA CHINA CORPORATION LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

Directors:

Executive Directors:

Mr. YUEN Hoi Po (*Chairman*)

Mr. ZHANG Changsheng

Non-executive Directors:

Mr. Hugo SHONG (*Vice Chairman*)

Mr. Edward TIAN Suning

Independent non-executive Directors:

Prof. WEI Xin

Dr. WONG Yau Kar, David, JP

Mr. YUEN Kin

Mr. CHU Yuguo

Registered Office:

Cricket Square, Hutchins Drive,
P.O. Box 2681,
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Principal office in Hong Kong

Suite 3503, 35/F, Tower Two,
Lippo Centre,
89 Queensway,
Hong Kong

8 August 2012

To the Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION**

**IN RELATION TO THE ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF
YUAN SHUN INVESTMENTS LIMITED**

**INVOLVING ISSUE OF PROMISSORY NOTE
AND CONVERTIBLE NOTE**

AND

**(2) PROPOSED GRANT OF SPECIFIC MANDATE
TO ISSUE NEW SHARES**

INTRODUCTION

References are made to the announcement of the Company dated 25 May 2012, in which the Board announced that on 25 May 2012, the Purchaser entered into the Acquisition Agreement with the Vendor for the Proposed Acquisition. Pursuant to the Acquisition Agreement, the Purchaser has conditionally

LETTER FROM THE BOARD

agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share for the consideration of HK\$900 million. The Sale Share represents the entire issued share capital of the Target Company. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Purchaser.

Pursuant to the Acquisition Agreement, the consideration of HK\$900 million shall be settled in the following manner:

- (i) HK\$50 million shall be paid in cash by the Purchaser to the Vendor on Completion;
- (ii) HK\$150 million shall be settled by way of Promissory Note to be issued by the Purchaser on Completion; and
- (iii) the remaining HK\$700 million shall be settled by the Purchaser procuring the Company to issue the Convertible Note to the Vendor on Completion.

Under the Acquisition Agreement, the Purchaser will procure the Company to issue the Convertible Note to the Vendor as a part of the Consideration on Completion. The Conversion Shares to be issued following the exercise of the Conversion Rights shall rank *pari passu* in all respects with the Shares then in issue on the date of allotment and issue thereof. The Company will seek the grant of Specific Mandate from the Independent Shareholders at the EGM to satisfy the allotment and issue of the Conversion Shares upon the exercise of the Conversion Rights pursuant to the Convertible Note.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios under the Listing Rules exceed 100%, the Proposed Acquisition constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Listing Rules and is therefore subject to the approval of Independent Shareholders at the EGM pursuant to Rule 14A.52 of the Listing Rules.

In addition, the Vendor is a wholly-owned company of Mr. Yuen, who is an executive Director and a substantial shareholder of the Company. Accordingly, the Vendor is a connected person of the Company by way of being an associate of Mr. Yuen and the Proposed Acquisition constitutes a connected transaction pursuant to Rule 14A.13(1)(a) of the Listing Rules. The Proposed Acquisition and the transactions contemplated under the Acquisition Agreement are therefore subject to approval by the Independent Shareholders at the EGM by way of poll. Other than Mr. Yuen and his associates, who are required to abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder, no other Shareholders are required to abstain from voting in respect of the resolutions relating to the Acquisition Agreement, and the transactions contemplated thereunder at the EGM.

An Independent Board Committee has been formed to advise the Independent Shareholders with respect to the relevant resolutions on the transactions contemplated under the Acquisition Agreement proposed to be passed at the EGM, and the Independent Financial Adviser has been appointed to make recommendations to the Independent Board Committee and the Independent Shareholders regarding the same.

LETTER FROM THE BOARD

The EGM will be held to consider, and if thought fit, pass the requisite resolution(s) to approve the Acquisition Agreement, the issue of the Convertible Note, the proposal for the grant of Specific Mandate to satisfy the allotment and issue of the Conversion Shares following the exercise of the Conversion Rights pursuant to the Convertible Note and other transactions contemplated under the Acquisition Agreement.

As completion of the Proposed Acquisition is subject to the fulfillment of a number of conditions precedent and may or may not proceed, Shareholders and potential investors should exercise caution when dealing with the Shares.

THE ACQUISITION AGREEMENT

Date: 25 May 2012

Vendor: Smart Concept Enterprise Limited, an investment holding company incorporated in BVI and a wholly-owned company of Mr. Yuen, a Director, the Chairman and a substantial shareholder of the Company. Since the Vendor is an associate of Mr. Yuen, the Vendor is a connected person pursuant to Rule 14A.11(4) of the Listing Rules.

Purchaser: Unique Talent Group Limited

The Purchaser is an investment holding company incorporated in BVI and is a wholly-owned subsidiary of the Company.

The Company is incorporated in the Cayman Islands with limited liability and, through its subsidiaries, is principally engaged in media business, properties investment through jointly controlled entities, and the provision of high-end recreational and tourism services.

As at the Latest Practicable Date, the Target Company is legally and beneficially owned as to 100% by the Vendor.

Asset to be acquired

The asset to be acquired is the Sale Share, representing the entire issued share capital of the Target Company, which is an investment holding company, holding interest in the entire issued share capital of the Hong Kong Company. The sole asset of the Hong Kong Company is the interest in the entire issued share capital of the PRC Company which was established on 11 January 2012. Save the Second Cooperation Agreement dated 30 January 2012 entered into between the PRC Company and 北京朝來 (Beijing Chao Lai*) relating to the development and operation rights of the 580 acres (equivalent to approximately 387,000 square metres) of the Subject Land up to 31 May 2048, the PRC Company has not engaged in any other business activities.

LETTER FROM THE BOARD

Charges over the equities of the Target Group

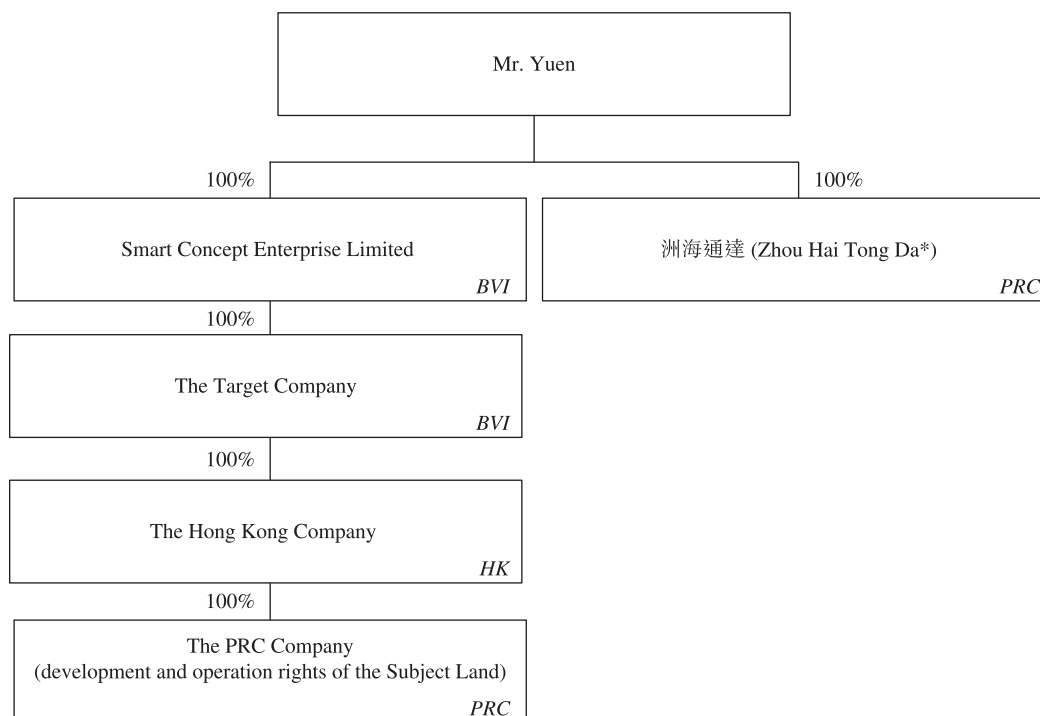
The Sale Share and the one share representing the entire issued share capital of the Hong Kong Company have been pledged to a financial institution in Hong Kong by the Vendor for a loan of HK\$195 million secured by, *inter alia*, the personal guarantee from Mr. Yuen, the sole shareholder of the Vendor, and the Debentures. It is a condition precedent for Completion that the Sale Share, the entire issued share capital of the Hong Kong Company and the entire issued share capital of the PRC Company shall be free from encumbrances at the own cost of the Vendor on Completion.

The Debentures include provisions that the financial institution, as a chargee, shall have the right to declare that, among other things, the security forming the subject matter of the Debentures become enforceable upon the occurrence of an event of default by the Vendor, the Hong Kong Company or the Target Company. The original purpose of the said loan was to satisfy Mr. Yuen's personal investment needs. Mr. Yuen intends to settle the Debentures on or before 31 August 2012. As such, the charges over the equity of the Target Group is expected to be released prior to Completion.

Shareholding structure of the Target Group before and upon Completion

The following diagrams set out the shareholding structure of the Target Group before and upon Completion:

Shareholding structure of the Target Group before Completion



LETTER FROM THE BOARD

Shareholding structure of the Target Group upon Completion



In order to reduce any potential risks, the Company did not purchase Zhou Hai Tong Da which entered into the First Cooperation Agreement with Beijing Chao Lai after taken into consideration of the following factors:

1. Zhou Hai Tong Da was established in 2007 with a 5-year history. It has been engaged in trading businesses other than the development of the Subject Land. The Company would only like to acquire Zhou Hai Tong Da's business in relation to the development of the Subject Land but is not willing to acquire its other trading businesses and its history.
2. Zhou Hai Tong Da has not signed any proper employment agreements with its employees since its incorporation and has not properly made provident fund payments for its employees. There may be potential legal risks in particular to those former employees of Zhou Hai Tong Da.
3. As Zhou Hai Tong Da has 5 years history, the Company may not be able to identify whether there are any contingent liabilities of Zhou Hai Tong Da even after conducting thorough due diligence exercise.

Consideration

Pursuant to the Acquisition Agreement, the Consideration was agreed at HK\$900 million. The Consideration shall be satisfied by the Purchaser in the following manner:

- (i) HK\$50 million shall be paid in cash by the Purchaser to the Vendor on Completion;

LETTER FROM THE BOARD

- (ii) HK\$150 million shall be settled by way of Promissory Note to be issued by the Purchaser on Completion; and
- (iii) the remaining HK\$700 million shall be settled by the Purchaser procuring the Company to issue the Convertible Note to the Vendor on Completion.

The cash portion of the Consideration to be paid by the Purchaser to the Vendor will be financed by internal resources of the Group.

Basis of the Consideration

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor on normal commercial terms by reference to, among other things, the letter dated 22 May 2012 issued by American Appraisal China Limited, an independent valuer, in which it stated the fair value of 100% equity interest of the Target Company as at 31 December 2011 is approximately HK\$1 billion. The income approach has been applied for the valuation, which constitutes a profit forecast under Rule 14.61 of the Listing Rules. The requirements under Rule 14.62 of the Listing Rules have been complied with by the Company. The valuation was performed according to the business plan of the Company, in which the Group intended to develop the Subject Land as the extension of "Bayhood No. 9 Club" and low-density, double-storey deluxe hotel villas and conferencing facilities with a total floor area of 80,404 square meters would be constructed. Those villas would be operated in the form of serviced apartments and leased out on short to medium terms.

As compared to the land where "Bayhood No. 9 Club" is located ("Bayhood No. 9 Land") with an area of approximately 1,150 acres as set out in the very substantial acquisition circular of the Company dated 17 June 2011, the Subject Land is a smaller piece of land with an area of approximately 580 acres only. However, construction with a gross floor area of 80,404 square meters could be built on the Subject Land according to the relevant Rural Construction Planning Permit (鄉村建設規劃許可證) issued by Beijing Municipal Commission of Urban Planning (北京市規劃委員會), whereas the Bayhood No. 9 Land is used for "Bayhood No. 9 Club" with vast areas being used as the golf course and minimal construction was built on Bayhood No. 9 Land.

As compared to the estimated compensation amount for the Subject Land of RMB320 million (as detailed on pages 25 and 26 of this circular), the Consideration is much higher. However, the above estimated compensation amount is based on the pricing standard in year 2002 and has not taken into account the significant rise in general land and property prices in Beijing during the past ten years. Based on the average land selling price of Beijing commercialized buildings data presented by China Statistical Yearbook, the average land selling price for villas and high-grade apartments in 2011 was approximately RMB28,680 per square meter, representing a 212% increase as compared to the average selling price of approximately RMB9,182 per square meter in 2002. Applying the same growth rate to the compensation amount of RMB320 million, the amount shall be approximately RMB1,000 million, which is higher than the Consideration. In view of the above, the Board is of the view that the Consideration is fair and reasonable and in the interest of the Company and Independent Shareholders as a whole.

Although the average land selling price for villas and high-grade apartments in 2011 based on the average land selling price of Beijing commercialized buildings data presented by China Statistical Yearbook is much higher than the Consideration (if the Consideration were deemed to be the land

LETTER FROM THE BOARD

selling price by reference to the average thereof), the villa to be built on the Subject Land is not for sale. As such, the average land selling price of Beijing commercialized buildings data presented by China Statistical Yearbook is only a reference to intimate the potential undervalue of the compensation amount of RMB320 million preliminarily indicated by the relevant PRC government department to be payable to convert the Subject Land to state-owned status. No one could guarantee (i) when the relevant government department would allow Beijing Chao Lai to pay for the compensation amount for changing the nature of the Subject Land from collectively-owned land to state-owned land; and (ii) what is the actual compensation amount to be imposed by the relevant PRC government department. As time is of the essence for the development of the Subject Land as the extension of “Bayhood No. 9 Club”, the Proposed Acquisition would enable the Company to build hotel villas and conferencing facilities next to “Bayhood No. 9 Club” in a foreseeable timeline, which would enhance the competitiveness and development of “Bayhood No. 9 Club”.

The Board considers Zhou Hai Tong Da would have the ability to settle the compensation amount based on the Mr. Yuen’s representation that he has sufficient resources and personal wealth to provide the necessary financial support to Zhou Hai Tong Da for the settlement of the compensation amount. Nevertheless, having considered that the Target Group has already possessed the development and operation right of the Subject Land, the Board considers that there will be no material impact to the Target Group even if Zhou Hai Tong Da fails to settle the compensation amount.

The major assumptions of the valuation include the following:

Revenue

By referencing the average room rate and occupancy rate for high-end hotels in Beijing, it was assumed the proposed project could charge at RMB55 per square meter per day with an annual occupancy rate of 60% during the forecasting period. As inflation was expected in the PRC, an annual growth rate of 5% was assumed on the rental charges.

Business, Property and Income Tax

Industry standard business tax (5.5%), property tax (1.2% of original value with certain deduction which is assumed to be 30%) and corporate income tax policy (25%) were applied in the discounted cash flow analysis.

Operating expenses and EBITDA

Operating expenses include land use right payment, general administrative expenses, salaries, depreciation, and overhead, etc. For the land use right payment, the amount was according to the Second Cooperation Agreement, RMB6 million per annum with an increment of 10% increase in every 5 years. Without any historical track record as reference, it was assumed the Target Group could achieve the operating results similar to its peers, which is around 33% of revenue in terms of EBITDA margin.

LETTER FROM THE BOARD

Capital Expenditure

Based on the business plan, it was assumed the initial investment cost would be approximately RMB838 million. After year 2015, the capital expenditure would approximate to annual depreciation charges on the initial investment cost. Given the long operational period up to year 2048, 5% annual growth was assumed on the capital expenditure.

Working Capital

Due to the nature of hotel or serviced apartment business, no substantial amounts of account receivable or inventory are expected. Net working liabilities were observed in accordance with historical track record of comparable companies or the industry statistics. Thus, no working capital was projected.

In view of the Consideration for the Proposed Acquisition as compared with the valuation of the development and operation rights of the Subject Land, the Company is of the view that the Proposed Acquisition is beneficial to the Group.

The Acquisition Agreement will be terminated if the Purchaser shall not be satisfied with, among other things, the results of the due diligence exercise and the valuation in its absolute discretion.

The Directors consider that the Proposed Acquisition has great potential for the expansion of the high-end recreational and tourism business of the Group as the Subject Land is adjacent to “Bayhood No. 9 Club” owned by the Group, which is principally engaged in the provision of high-end recreational and tourism services. Taking this into account and having considered the reasons and benefits as stated in the paragraph headed “Reasons for and Benefits of the Proposed Acquisition” below, the Directors are of the opinion that the terms of the Acquisition Agreement and the Consideration are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

The Proposed Acquisition is a conditional acquisition which will be subject to, among other things, the satisfactory completion of the due diligence review by the Purchaser on the Subject Land and the affairs of the Target Group.

Conditions Precedent

Completion shall be subject to the satisfaction of the following conditions precedent (or waived by the Purchaser regarding condition precedent set out in (iv) below) on or before the Long Stop Date:

- (i) the development and operation rights of the Subject Land being legally owned by Beijing Chao Lai;
- (ii) the Purchaser being completed and satisfied in all respects, at its absolute discretion, with the results of the due diligence review (including but not limited to the financial, legal and business reviews) to be conducted by the Purchaser in accordance with the Acquisition Agreement;
- (iii) a legal opinion having been issued by qualified lawyers in PRC appointed by the Purchaser in form and substance to the satisfaction of the Purchaser in its absolute discretion in relation to all matters concerning the Acquisition Agreement;

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- (iv) the warranties given by the Vendor in the Acquisition Agreement remaining true and accurate in all respects;
- (v) the Sale Share, the entire issued share capital of the Hong Kong Company and the entire issued share capital of the PRC Company being free from encumbrances at the own cost of the Vendor on Completion;
- (vi) the corporate structure of the Target Group as described in the Acquisition Agreement remaining accurate, and each of the companies of the Target Group having no indebtedness;
- (vii) the Shares remaining listed and traded on the Stock Exchange save any temporary suspensions provided that such suspension of trading in the Shares not exceeding 9 months;
- (viii) the transactions contemplated under the Acquisition Agreement not having breached any provisions of the Listing Rules and the Stock Exchange not having opposed any transaction contemplated under the Acquisition Agreement;
- (ix) the passing by the Independent Shareholders at the EGM by way of poll, the necessary resolutions to approve the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the issue and allotment of the Convertible Note and the issue of the Conversion Shares to be issued following the exercise of the Conversion Rights;
- (x) the Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in the Conversion Shares; and
- (xi) the Purchaser and the Company having sufficient funding to satisfy the cash portion of the Consideration.

The Purchaser may waive the condition precedent set out in (iv) above at its absolute discretion and require the Vendor to complete the Proposed Acquisition. The waiver is to provide flexibility in situations where only a small part of that condition may not have been fulfilled or the benefit which the Purchaser may derive from the Proposed Acquisition greatly outweighs the loss which the Purchaser may suffer as a result of the waiver of that condition. Without the right on the part of the Purchaser to waive the condition, the Vendor may terminate the Acquisition Agreement on the ground that the condition has not been fulfilled in situations which the Vendor sees benefit in termination (e.g. sudden rise in price or in face of a higher offer). Such right to waive fulfillment of the condition is common in agreements of similar natures. The Directors will exercise due care in discharge of their fiduciary duties in deciding whether to waive the condition and the Purchaser has no present intention to waive the condition.

In the event that any of the above conditions precedent has not been satisfied on or before the Long Stop Date or such later date as the Purchaser and the Vendor may agree, and in case the condition precedent set out in (iv) above has not been satisfied and the Purchaser has not waived the condition), the Acquisition Agreement shall cease without prejudice to the rights and the obligations of the parties before the termination.

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As at the Latest Practicable Date, the conditions precedent set out in (i), (ii) and (iii) above have been fulfilled.

Completion

Upon fulfillment of the conditions precedent (or in case the condition precedent set out in (iv) above has not been satisfied and the same having been waived by the Purchaser) set out in the Acquisition Agreement, Completion shall take place on the Completion Date or such other date as agreed by parties to the Acquisition Agreement in writing. Upon Completion, the Target Company and its subsidiaries will become wholly-owned subsidiaries of the Company and their financial results will be consolidated into the accounts of the Group.

PROMISSORY NOTE

Upon Completion, HK\$150 million of the Consideration will be settled by way of Promissory Note to be issued by the Purchaser to the Vendor. The terms of the Promissory Note have been negotiated on an arm's length basis and the principal terms of which are as follows:

Issuer	The Purchaser
Principal amount	HK\$150 million
Interest	The Promissory Note shall bear interest from the date of the issue at the best lending rate of The Hongkong and Shanghai Banking Corporation Limited (being 5% per annum as at Latest Practicable Date) on the full amount of the Promissory Note, which subject to provided herein, shall be payable by the Purchaser in arrears on the Repayment Date. As the interest rate of the Promissory Note corresponds with the prime interest rate offered in the financial market, the Board considers that the interest rate of the Promissory Note is close to the market rate, and is therefore fair and reasonable.
Date of issue	The Completion Date
Repayment Date	The date falling on the last day of the 24th month from the date of issue of the Promissory Note
Early repayment	The Purchaser could, at its discretion, repay the Promissory Note in whole or in part prior to the Repayment Date. There will not be any premium over or discount to the payment obligations under the Promissory Note for any early repayment.

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CONVERTIBLE NOTE

Upon Completion, HK\$700 million of the Consideration will be settled by the Purchaser procuring the Company to issue the Convertible Note to the Vendor. The terms of the Convertible Note have been negotiated on an arm's length basis and the principal terms of which are as follows:

Issuer	The Company
Noteholder	The Vendor
Principal Amount	RMB569 million (equivalent to approximately HK\$700 million), which amount will not be subject to any change notwithstanding variation in the conversion rate between HK\$ and RMB.
Interest	Zero coupon convertible note
Date of Issue	Completion Date
Maturity Date	Subject to the terms and conditions of the Convertible Note, the Maturity Date shall fall on the third anniversary from the date of issue of the Convertible Note.
Conversion Rights	Provided that any conversion of the Convertible Note does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Noteholder who exercises the Conversion Rights, whether or not such mandatory offer obligation is triggered by the fact that the number of Conversion Shares to be allotted and issued following the exercise of the Conversion Rights attaching to Convertible Note and, if applicable, together with any Shares already owned or agreed to be acquired by the Noteholder or parties acting in concert with it, represents 30% or more (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and any conversion of the Convertible Note will not result in an insufficient public float for the Company under the Listing Rules, the Noteholder shall have the right on any Business Day during the Conversion Period to convert the whole or part of such principal amount of the Convertible Note set out therein into Conversion Shares at the Conversion Price, other than the part of the Convertible Note which has been called for redemption before the Maturity Date of the Convertible Note.

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Conversion Price

The initial Conversion Price will be HK\$0.10 per Conversion Share (equivalent to approximately RMB0.0813 per Conversion Share at the fixed conversion rate of RMB1.00 equal to HK\$1.2302) subject to adjustment provisions customary for convertible securities of a similar type. The adjustment events will arise as a result of certain changes in the share capital of the Company including consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company at substantial discount to market value. The Company shall issue an announcement in the event that there are any changes in the initial Conversion Price (and any subsequent changes in the conversion price of the Convertible Note) in the future to comply with the relevant requirements under the Listing Rules.

The initial Conversion Price represents (i) a premium of approximately 22.0% to the closing price of HK\$0.0820 per Share as quoted on the Stock Exchange on the Latest Practicable Date; (ii) a premium of approximately 22.2% to the average of the closing prices of HK\$0.0818 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Latest Practicable Date; and (iii) a premium of approximately 19.2% to the average of the closing prices of approximately HK\$0.0839 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Latest Practicable Date.

The Board considered that the initial Conversion Price was arrived at after arm's length negotiations between the Company and the Vendor, after taking into account stock market conditions and the prevailing market price of the Shares.

Conversion Shares

7,000 million new Shares to be issued upon full conversion of the Convertible Note on the basis of the Principal Amount (in terms of HK\$) and initial Conversion Price subject to adjustment.

The Conversion Shares following the exercise of the Conversion Rights pursuant to the Convertible Note represent approximately 154.2% of the existing issued share capital of the Company and approximately 60.7% of the then issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Note.

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Redemption

The Noteholder is not permitted to require redemption of the Convertible Note before the Maturity Date unless an event of default shall have occurred and the Noteholder shall have given a duly completed and signed notice of redemption, together with the Convertible Note Certificate to the Company not later than 60 calendar days following the occurrence of an event of default specifying the date of redemption and the amount proposed to be redeemed.

Events of default for early redemption include the following:

- (a) the Company defaults in making payment of any principal, redemption or other amount due in respect of the Convertible Note and such default continues for more than fourteen (14) Business Days;
- (b) the Company fails to deliver any Shares as and when such Shares are required to be delivered following conversion of the Convertible Note and such failure continues for more than fourteen (14) Business Days;
- (c) the Company defaults in performance or observance or compliance with any material obligations set out in the Convertible Note Conditions or any of its material representations, warranties or covenants is breached which default or breach is incapable of remedy or, if capable of remedy, is not remedied within fourteen (14) Business Days after notice of the occurrence of such default or breach from the Convertible Noteholder to the Company; or
- (d) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any material part of the undertaking, property, assets or revenues of the Company which is not dismissed or discharged or settled within sixty (60) Business Days; or

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- (e) the Company becomes insolvent or is unable to pay its debts as they fall due or applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of the Company the whole or any material part of the undertaking, property, assets or revenues of the Company which is not dismissed or discharged or settled within sixty (60) Business Days or takes any proceeding under any law for a readjustment or deferment of its obligations or any part of them or makes or enters into a general assignment or compromise with or for the benefit of its creditors or initiates or consents to proceedings relating to itself under any applicable bankruptcy or insolvency law relating to the insolvency or inability to repay debts of the Company; or
- (f) a moratorium is agreed or declared in respect of any indebtedness of the Company of material effect or any governmental authority or agency seizes all or a material part of the assets of the Company; or
- (g) the voluntary delisting of the Shares (as a class) on the Stock Exchange.

Transferability

The Convertible Note may be assignable or transferable provided that the Convertible Note may not be transferred to any connected person of the Company.

Ranking

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue on the date of allotment and issue of such Conversion Shares. There shall be no restriction for subsequent sale of the Conversion Shares.

Voting rights

The Noteholder will not be entitled to attend or vote at any general meetings of the Company by reason only of it being the Noteholder.

Application for listing

No application will be made by the Company to the Listing Committee for the listing of the Convertible Note. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

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PLAN FOR THE SETTLEMENT OF THE PROMISSORY NOTE AND CONVERTIBLE NOTE

The Company has no immediate fund raising plan to settle the Promissory Note and Convertible Note as at the Latest Practicable Date due to the following reasons:

- (i) The Company has no intention to settle the Promissory Note and Convertible Note before their respective maturity dates;
- (ii) The Company is of the view that it will have sufficient internally generated cash flow to settle the principal and accrued interests of the Promissory Note which will only be repayable on the last day of the 24th month from the date of issue of the Promissory Note considering that the first phase of the construction plan of the Subject Land will be completed in the third quarter of 2013 and cash inflow will be generated from the commencement of the operation of the villas in the first phase of the construction project of the Subject Land; and
- (iii) In respect of the settlement of the Convertible Note, which would be repayable on the third anniversary from the date of issue of the Convertible Note in case the Noteholder has not wholly or partly converted the Convertible Note into Shares, the Company should have sufficient cash flow to settle the principal of the Convertible Note upon the commencement of the full operation of all villas on the Subject Land.

PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE NEW SHARES

Specific Mandate

Under the Acquisition Agreement, the Purchaser will procure the Company to issue the Convertible Note to the Vendor as part payment of the Consideration on Completion. The Conversion Shares to be issued following the exercise of the Conversion Rights pursuant to the Convertible Note shall rank *pari passu* in all respects with the Shares then in issue on the date of allotment and issue thereof. The Company will seek the grant of Specific Mandate from the Independent Shareholders at the EGM for the allotment and issue of the Conversion Shares upon the exercise of the Conversion Rights pursuant to the Convertible Note.

Application for Listing

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND UPON COMPLETION AND AFTER THE PROPOSED SHARE CONSOLIDATION SHALL HAVE BECOME EFFECTIVE

For illustration purpose only and without taking into account any other possible changes in the shareholding structure of the Company, the following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the issue of the maximum consideration Shares of 100,000,000 for the acquisition announced by the Company on 22 February 2011; (iii) immediately upon the exercise of the subscription rights attaching to the Warrants which are still outstanding as at the Latest Practicable Date; (iv) immediately upon Completion and assuming

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conversion of the Convertible Note to the extent that the Noteholder holds or controls 29.9% of the issued share capital of the Company; and (v) immediately upon Completion and assuming full conversion of the Convertible Note.

	As at the Latest Practicable Date		Immediately after the issue of the maximum consideration Shares of 100,000,000 for the acquisition announced by the Company on 22 February 2011		Immediately upon the exercise of the subscription rights attaching to the Warrants which are still outstanding as at the Latest Practicable Date		Immediately upon Completion and assuming conversion of the Convertible Note to the extent that the Noteholder holds or controls 29.9% of the issued share capital of the Company and public float of not less than 25%		Immediately upon Completion and assuming full conversion of the Convertible Note (Note 5)	
	Approximate		Approximate		Approximate		Approximate		Approximate	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Sun Hung Kai Investment Services Limited (Note 1)	827,435,214	18.23	827,435,214	17.84	827,435,214	16.01	827,435,214	13.27	827,435,214	6.80
Mr. Yuen (Note 2) & the Vendor (Note 3)	798,150,000	17.58	798,150,000	17.20	798,150,000	15.44	1,864,017,642	29.90	7,798,150,000	64.08
He Peng (Note 4)	200,000,000	4.41	300,000,000	6.47	300,000,000	5.80	300,000,000	4.81	300,000,000	2.47
Places for the subscription of the outstanding Warrants	—	—	—	—	530,000,000	10.25	530,000,000	8.50	530,000,000	4.35
Public Shareholders	2,713,594,239	59.78	2,713,594,239	58.49	2,713,594,239	52.50	2,713,594,239	43.52	2,713,594,239	22.30
Total	4,539,179,453	100.00	4,639,179,453	100.00	5,169,179,453	100.00	6,235,047,095	100.00	12,169,179,453	100.00

For illustration purpose only and without taking into account any other possible changes in the shareholding structure of the Company, the following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) assuming the proposed Share Consolidation shall have become effective; (iii) immediately upon the issue of the maximum consideration Consolidated Shares of 50,000,000 for the acquisition announced by the Company on 22 February 2011; (iv) immediately upon the exercise of the subscription rights attaching to the Warrants which are still outstanding as at the Latest Practicable Date; (v) immediately upon Completion and assuming conversion of the Convertible Note to the extent that the Noteholder holds or controls 29.9% of the issued share capital of the Company; and (vi) immediately upon Completion and assuming full conversion of the Convertible Note.

	As at the Latest Practicable Date		Assuming the proposed Share Consolidation shall have become effective		Immediately after the issue of the maximum consideration Consolidated Shares of 50,000,000 for the acquisition announced by the Company on 22 February 2011		Immediately upon the exercise of the subscription rights attaching to the Warrants which are still outstanding as at the Latest Practicable Date		Immediately upon Completion and assuming conversion of the Convertible Note to the extent that the Noteholder holds or controls 29.9% of the issued share capital of the Company		Immediately upon Completion and assuming full conversion of the Convertible Note (Note 5)	
	Approximate		Consolidated		Consolidated		Consolidated		Consolidated		Consolidated	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Sun Hung Kai Investment Services Limited (Note 1)	827,435,214	18.23	413,717,607	18.23	413,717,607	17.84	413,717,607	16.01	413,717,607	13.27	413,717,607	6.80
Mr. Yuen (Note 2) & the Vendor (Note 3)	798,150,000	17.58	399,075,000	17.58	399,075,000	17.20	399,075,000	15.44	932,008,821	29.90	3,899,075,000	64.08
He Peng (Note 4)	200,000,000	4.41	100,000,000	4.41	150,000,000	6.47	150,000,000	5.80	150,000,000	4.81	150,000,000	2.47
Places for the subscription of the outstanding Warrants	—	—	—	—	—	—	265,000,000	10.25	265,000,000	8.50	265,000,000	4.35
Public Shareholders	2,713,594,239	59.78	1,356,797,119	59.78	1,356,797,119	58.49	1,356,797,119	52.50	1,356,797,119	43.52	1,356,797,119	22.30
Total	4,539,179,453	100.00	2,269,589,726	100.00	2,319,589,726	100.00	2,584,589,726	100.00	3,117,523,547	100.00	6,084,589,726	100.00

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Notes:

1. Sun Hung Kai Investment Services Limited is a wholly-owned subsidiary of Sun Hung Kai Securities Limited, a wholly-owned subsidiary of Sun Hung Kai & Co. Limited, which in turn is a non wholly-owned subsidiary of Allied Properties (H.K.) Limited. Allied Properties (H.K.) Limited is a non wholly-owned subsidiary of Allied Group Limited in which Mr. LEE Seng Hui, Ms. LEE Su Hwei and Mr. LEE Seng Huang are the trustees of the Lee and Lee Trust, having 63.87% interest in Allied Group Limited as at 20 June 2012. Accordingly, Mr. LEE Seng Hui, Ms. LEE Su Hwei and Mr. LEE Seng Huang are deemed to have the same long position as Sun Hung Kai Investment Services Limited.
2. Rich Public Limited is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned by Ming Bang Limited. Ming Bang Limited is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned by Mr. Yuen. Mr. Yuen is therefore deemed to be interested in 798,150,000 Shares held by Ming Bang Limited and Rich Public Limited pursuant to Part XV at the SFO. Mr. Yuen is also a director of Ming Bang Limited.
3. The Vendor's entire issued share capital is owned by Mr. Yuen by virtue of Part XV of the SFO, Mr. Yuen is therefore deemed to be interested in the Shares held by the Vendor. Mr. Yuen is also a director of the Vendor.
4. Mr. HE Peng, as vendor, entered into a conditional sale and purchase agreement dated 26 January 2011 with the Purchaser, as purchaser and the Company as the purchaser's guarantor. Pursuant to the sale and purchase agreement, 200,000,000 shares have been issued by the Company to Mr. HE Peng on 28 July 2011, and 100,000,000 shares will be issued by the Company to Mr. HE Peng upon fulfillment of the unconditional and irrevocable indemnity.
5. It is provided in the conditions of the Convertible Note that the relevant holder of the Convertible Note is only allowed to exercise the Conversion Rights only to the extent that (i) any conversion of the Convertible Note does not render the relevant holder of the Convertible Note who exercises the Conversion Rights and parties acting in concert with such holder to hold (whether directly or indirectly), together with any Shares already owned or agreed to be acquired by such holder of Convertible Note and parties acting in concert Shares representing 30% or more of the consequential enlarged issued ordinary share capital of the Company and (ii) any conversion of the Convertible Note will not lead to the public float being less than 25% of the consequential enlarged issued ordinary share capital of the Company at the date of the relevant exercise. Accordingly, the figures shown in this column are for illustration purposes only.

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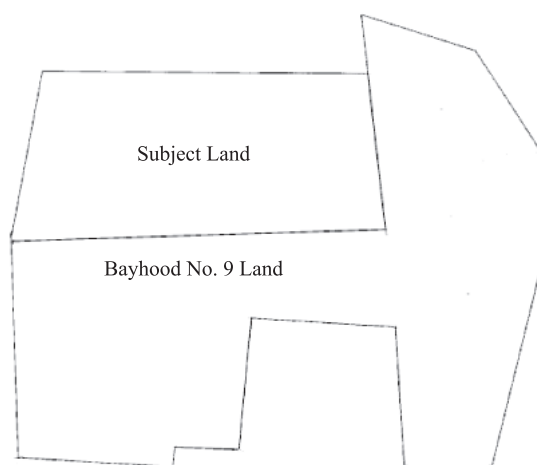
INFORMATION OF THE TARGET GROUP

Introduction of the Subject Land

The Subject Land is located at Beijing Chao Lai Football Activities Centre (北京朝來足球活動中心), Chaoyang District, Beijing, with area of approximately 580 acres (approximately 387,000 square meters). The Subject Land is adjacent to the “Bayhood No. 9 Club” operated by the Group.



Geographical location of the Subject Land



The Subject Land and the Bayhood No. 9 Land

As at the Latest Practicable Date, the Subject Land is a piece of collectively-owned land, owned by the Villagers' Committee, which is made up of representatives of local villagers, in accordance with the record of the competent local land management department of the PRC government. No Collective Land Ownership Certificate has been granted by the PRC government to the villagers. According to PRC laws, the Villagers' Committee has the right to operate the Subject Land on behalf of the villagers. On 8 May 2008, Beijing Chao Lai, a collective enterprise, (i) has been granted the development and operation rights of the Subject Land by the Villagers' Committee; (ii) has been granted the rights to pay

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for the compensation amount to change the nature of the Subject Land and obtain its land use right; and (iii) has the right to further grant the development and operation rights of the Subject Land to other parties. The development rights of the Subject Land are the construction rights of the Subject Land and the operation rights of the Subject Land are the rights to manage the properties to be developed on the Subject Land. On 31 March 2012, Beijing Chao Lai has obtained the relevant Rural Construction Planning Permit (鄉村建設規劃許可證) issued by the Beijing Municipal Commission of Urban Planning (北京市規劃委員會) for the development of a total area of approximately 387,000 square meters on the Subject Land, on which establishments with gross floor areas of approximately 80,404 square meters could be built. The Target Group plans to make use of the remaining area of the Subject Land as walkways, gardening and green landscapes, making the whole area as a low-density green construction. As at the Latest Practicable Date, the Target Group does not plan to apply for the extension of construction areas on the Subject Land. Beijing Municipal Commission of Urban Planning also imposed conditions that the establishments on the Subject Land cannot be higher than nine meters and the development of the Subject Land shall also fulfill other local requirements for urban planning, transportation, virescence and civil defence. The Target Group will be responsible for the development cost of the Subject Land. All the development cost of the Subject Land, including green construction, has been stated in the paragraph named “Estimated Capital Commitment of the Group”.

Relationship between Beijing Chao Lai and Zhou Hai Tong Da

On 16 May 2008, Beijing Chao Lai has entered into the First Cooperation Agreement with Zhou Hai Tong Da which is beneficially wholly-owned by Mr. Yuen. Zhou Hai Tong Da was founded in year 2007 and was acquired by Mr. Yuen in year 2008. Zhou Hai Tong Da is principally engaged in the trading of hotel and catering utensils in the PRC, and has entered into the First Cooperation Agreement with Beijing Chao Lai. Pursuant to the First Cooperation Agreement, Beijing Chao Lai has granted the development and operation rights of the Subject Land to Zhou Hai Tong Da up to 31 May 2048 and Zhou Hai Tong Da guaranteed to pay Beijing Chao Lai an amount of RMB6 million annually from 1 June 2008 to 31 May 2048 with an increment of 10% every 5 years.

In the event that the PRC government allowed Beijing Chao Lai to change the nature of the Subject Land from collectively-owned land to state-owned land, Zhou Hai Tong Da agreed to pay for the compensation amount on behalf of Beijing Chao Lai to the relevant PRC government departments. Upon the payment of the compensation amount, Beijing Chao Lai would obtain the land use right of the Subject Land. Beijing Chao Lai agreed to become a wholly-owned subsidiary of Zhou Hai Tong Da in the event that (i) Zhou Hai Tong Da would pay for the compensation amount on behalf of Beijing Chao Lai to change the nature of the Subject Land; and (ii) Beijing Chao Lai should have successfully changed the nature of the Subject Land and obtained the land use right of the Subject Land. The Company has no intention, up to the Latest Practicable Date, to acquire the land use right of the Subject Land in the event that Beijing Chao Lai would have successfully obtained such land use right upon payment of compensation amount by Zhou Hai Tong Da and Beijing Chao Lai have become the subsidiary of Zhou Hai Tong Da.

Based on the latest circular regarding the pricing standard on state-owned land use right disposal issued by the Beijing Municipal Bureau of Land and Resources in year 2002, the estimated compensation amount for the Subject Land (assuming no change in the construction density) is approximately RMB320 million. However, the amount shall still be subject to case by case negotiation with the local government and shall also reflect the changes in the overall economic environment

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compared to that of year 2002. In the event that the final compensation amount for the Subject Land will be higher than RMB320 million, the Company would not be required to pay Mr. Yuen for the difference. There is no expected date of payment for the compensation amount as the application process for changing the nature of the Subject Land has not been commenced. As at the Latest Practicable Date, the PRC government has not agreed to change the nature of the Subject Land.

Save of the above, Beijing Chao Lai agreed that it would not be involved in the daily operation and management of the Subject Land.

Relationship between the Target Group and Beijing Chao Lai

On 30 January 2012, the PRC Company, being an indirect wholly-owned subsidiary of the Target Company, has entered into the Second Cooperation Agreement with Beijing Chao Lai with the consents from Zhou Hai Tong Da and Beijing Chao Lai itself. Pursuant to the Second Cooperation Agreement, the development and operation rights of the Subject Land up to 31 May 2048 has been effectively transferred to the PRC Company. As Mr. Yuen is the ultimate sole shareholder of both Zhou Hai Tong Da and the PRC Company, terms of the Second Cooperation Agreement are in line with that of the First Cooperation Agreement, save for the terms relating to the payment of the compensation amount for the Subject Land to the relevant PRC government departments which remains to be the obligations of Zhou Hai Tong Da. Beijing Chao Lai and Zhou Hai Tong Da have also issued the Beijing Chao Lai Consent Letter and Zhou Hai Tong Da Consent Letter, respectively, consenting to the execution of the Second Cooperation Agreement.

In view of the above, the development and operation rights of the Subject Land up to 31 May 2048 will be held by the Group (indirectly through the PRC Company) upon Completion. Beijing Chao Lai could not purchase the land use right or ownership of the Subject Land from the Villagers' Committee directly according to existing PRC laws, but only could apply and pay for the compensation amount in order to acquire the land use right through the land acquisition system of the PRC government. However, such administrative procedure would take a prolonged period to obtain the approval from the relevant government departments in the PRC. Should Beijing Chao Lai obtains the land use right of the Subject Land after the payment of the compensation amount by Zhou Hai Tong Da and Beijing Chao Lai becoming a wholly-owned subsidiary of Zhou Hai Tong Da, the Group's development and operation rights of the Subject Land will not be affected in any circumstances as the land use right of the Subject Land would still be owned by Beijing Chao Lai.

PRC Legal Opinion on the Subject Land

In accordance with the PRC legal opinion dated 24 May 2012, Guantao Law Firm, the PRC legal adviser of the Company, confirmed the followings:

- (i) the villagers are the owner of the Subject Land;
- (ii) the Villagers' Committee possesses the proper ownership title of the Subject Land;
- (iii) the Villagers' Committee has the right to grant the development and operation rights of the Subject Land to Beijing Chao Lai on behalf of the villagers;

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- (iv) Beijing Chao Lai has the right to further grant the development and operation rights of the Subject Land to the PRC Company; and
- (v) pursuant to the Second Cooperation Agreement entered into between Beijing Chao Lai and the PRC Company, the development and operation rights of the Subject Land granted to the PRC Company would expire by 31 May 2048.

The Board is of the view that the change of the nature of the Subject Land by the PRC government is not crucial to the Target Group due to the following reasons:

1. the Target Group has already obtained the development and operation rights of the Subject Land from Beijing Chao Lai for a period of 36 years. The business plan of the Target Group relating to the development of the Subject Land will not be affected irrespective of whether the land use right of the Subject Land is owned by Beijing Chao Lai or the development and operation rights of the Subject Land are owned directly by the Target Group through the PRC Company;
2. the Target Group intends to develop the Subject Land into low density, double storey deluxe hotel villas and conferencing facilities, which will be leased out on short and medium terms and not to be sold as the Target Group would not be able to obtain the ownership certificate for villa to be constructed;
3. should Beijing Chao Lai obtain the land use right of the Subject Land after the payment of the compensation amount by Zhou Hai Tong Da and Beijing Chao Lai becoming a wholly-owned subsidiary of Zhou Hai Tong Da, the Target Group's development and operation rights of the Subject Land would not be affected in any circumstances as the land use right of the Subject Land would still be owned by Beijing Chao Lai; and
4. the Target Group does not have to bear the estimated compensation amount of RMB320 million of the Subject Land which would be the responsibility of Zhou Hai Tong Da when Beijing Chao Lai is required to pay for such compensation amount. As such, the cashflow of the Target Group will not be reduced by the payment of the compensation amount and the Target Group could concentrate on the development of the Subject Land.

In view of the above reasons, the Board is of the opinion that it is fair and reasonable that the Acquisition Agreement does not include the change of the nature of the Subject Land as a condition precedent and this is in the interests of the Company and the Independent Shareholders as a whole.

Principal Business of the Target Group

The Target Group comprises the Target Company, the Hong Kong Company and the PRC Company. The Target Company is an investment holding company and was established on 9 June 2011 in BVI with Mr. Yuen being its ultimate beneficial owner. The Target Group has obtained all relevant licenses or certificates in relation to the development and operation of the Subject Land through the cooperation with Beijing Chao Lai.

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Industry Overview of the business of the Target Group

The Target Group intends to develop the Subject Land into low density, double storey deluxe hotel villas equipped with basement, luxurious amenities and gardening supplemented by conferencing facilities, swimming pools, pavilions, covered walkways and statues. Based on the public information, to assess the overview of the business of the Target Group, the Company has analysed the tourism industry and the hotel industry in the PRC.

1. *Overview of the tourism industry in the PRC*

According to the commentary information (<http://edu.people.com.cn/h/2011/1102/c227696-350668003.html>) presented in the website of People's Daily, which is the most influential and authoritative newspaper in China, the tourism market in the PRC is undergoing a rapid growth and the PRC will become the number one country of the world in terms of the number of tourists received according to the estimates by the World Tourism Organization. The success in hosting the Beijing Olympic Games, Shanghai World Expo and Guangzhou Asian Games also contributed to the rapid growth in the tourism industry, which will also bring rapid development to the hotel industry in the PRC.

2. *Overview of the hotel industry in the PRC*

According to the estimates (http://www.china.org.cn/business/2011-11/08/content_23853568.htm) as presented by China.org.cn, which is operated by the PRC government, the hotel market in the PRC is undergoing a rapid growth such that, in terms of number of hotel rooms, the PRC hotel market is expected to overtake Japan to become the world's second largest market by 2013, and to overtake the United States to be the world's largest by 2025. In 2009, the PRC government added tourism as one of the pillar industries in the 12th Five-Year Plan (2011–2015), which is widely believed to be the major factor that propels the country's hotel industry.

The Chinese hotels and motels industry had total revenue of USD59.5 billion in 2010 representing a compound annual growth rate (CAGR) of 10% for the period spanning 2006–2010. The domestic consumer segment was the industry's most lucrative in 2010, with total revenue of USD44.9 billion, equivalent to 75.5% of the industry's overall value. The performance of the industry is forecast to accelerate, with an anticipated CAGR of 12.7% for the five-year period 2010–2015, which is expected to drive the industry to a value of USD108 billion by the end of 2015.

The number of star-rated hotels in PRC as a whole had reached 14,000 by 2007, an increase of nearly 420% since 1997. According to the most recently issued evaluation standards of hotels as of January 2012, there are 660 five-star hotels in the PRC, in which Guangdong, Jiangsu, Beijing, Shanghai and Zhejiang are among the five places with the most number of five-star hotels.

3. *Overview of the tourism industry in Beijing*

Based on the commentary article (http://news.xinhuanet.com/fortune/2012-01/12/c_122576889.htm) published by xinhuanet.com, which is a press licensed by the PRC government, the total revenue from tourism industry in Beijing has reached a historical high record, and its portion as a percentage of the gross production in Beijing has been over 7% for the first time. As such, the tourism industry in Beijing is on an upward trend and its outlook is optimistic.

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4. *Overview of the hotel industry in Beijing*

In Beijing, there were 700 star-rated hotels in 2007, with 160,700 rooms and local estimates put the number of rooms at 151,000 by early 2008. This represents growth of nearly 40% in two years, primarily attributable to the pre-Olympics construction boom.

In view of the information presented in meadin.com (<http://res.meadin.com/areaAnalysis/2012-6-16/1261684943.shtml>), which is a major industry data provider for the hotel industry in the PRC, the average room rate for all star-rated hotels in Beijing has increased by 9.9% in May 2012 as compared to the same period in the previous year. The occupancy rate of all star-rated hotels in Beijing has increased by 3.8% in May as compared to the same period in the previous year. As such, the hotel industry in Beijing is on an upward trend and its prospect is positive.

5. *Seasonality factors of the hotel and tourism industry in the PRC and Beijing*

The tourism and hotel industry in Beijing and the PRC exhibits seasonality. During the traditional peak season in summer, the revenue and the tourist population for the tourism and hotel industry would be higher than other time in the rest of the year. In addition, during major festival such as the Chinese New Year, the Labour Day, and the National Day, the revenue and the tourist population of the tourism and hotel industry will increase substantially. Since the business of the Target Group falls within the tourism and hotel industry, the revenue of the Target Group is expected to exhibit seasonality.

6. *Competition in the PRC hotel and motel industry*

Within the hotels and motels industry, where switching costs are rather negligible and competitiveness on price alone is no longer a key to success, brand recognition and innovation helps to attract first-time customers and also repeat business. Among all these factors, brand recognition is important to attract consumers. Many of the major players also operate extensive franchise businesses that make brand recognition particularly important. A strong brand image helps to attract first-time customers and also to repeat business as switching costs are negligible in this industry. Buyers are generally price sensitive, except in the premium market.

Innovation is also vitally important in attracting customers, as price competitiveness is not the determining factor. Operators try to draw on customers with new ideas, such as capsule style hotels aimed at the mid-market consumer. In the premium segment, companies can attract customers by better security and more facilities, such as spas, gyms, and integrating hotel into golf complexes. Some larger companies have begun to introduce loyalty programs, by offering a points system or flying mileage to regular customers, which reduces buying power of customers. As customers are numerous and mostly small in size, their buying power is reduced since the impact of losing one customer is not a significant threat to business. Overall, buying power is moderate.

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7. Overview of the room rate and occupancy rate of hotels in PRC and Beijing

Demand has mainly stemmed from the increasingly wealthy domestic market. China had 960,000 individuals with a personal wealth of 10 million yuans or more in 2010, up by 85,000 individuals or 9.7 percent year on year, according to the Hurun Report, China's version of the Forbes rich list. Based on the article issued by China.org.cn in January 2012, Beijing's hotel occupancy level for the year hit 69%. In view of the increasingly wealthy domestic market, it is reasonable to believe that the room rate in Beijing should be sustainable.

In view of the positive industry outlook for the tourism and hotel industry in Beijing and in the PRC, the Directors are of the view that the business outlook of the Target Group is positive.

Business Plan of the Target Group

The Company intends to develop the Subject Land into low density, double storey deluxe hotel villas equipped with basement, luxurious amenities and gardening supplemented by conferencing facilities, swimming pools, pavilions, covered walkways and statues. The Subject Land is adjacent to "Bayhood No. 9 Club", allowing villa residents to enjoy an unobstructed view of green landscape.

The total number of hotel villas to be constructed will be around 80 to 100. The larger villas, each of a gross floor area ranging from approximately 700 square metres to 1,500 square metres, will mainly be leased out on medium to long terms. The smaller villas, each of a gross floor area ranging from approximately 150 square metres to 300 square metres, will mainly be leased out on short to medium terms. Individualized private service teams will be available to customers for tailored services including housekeeper service, vehicle management and healthcare advisory service.

The design of the hotel villas on the Subject Land will introduce local touches and creates welcoming spaces that reflect "East-meets-West" heritage. All materials, from hand-knitted rugs to original artworks, will be carefully selected to ensure comfort, quality and conformity. Such design idea allows the hotel villas to provide a unique approach to the customers. Whether the customers and members are using the hotel villas for a short term rental or for an extended stay, they will all be able to experience "Bayhood No. 9 Club Difference".

Short Term Plan

Construction of the villas

The Target Group will commence the first phase of the construction work of the Subject Land in the third quarter of 2012, which comprises 30–35 villas out of a total of 80–100 villas of the whole project. All of the villas in the first phase will be of the larger-sized ones. Each of the villas will be well furnished with facilities like private gardening, centralized air conditioning, garages, home theatre facilities, different kind of meeting rooms and function rooms such as gymnasium, wine/cigar cellar, etc. It is expected that the first phase will be completed in the third quarter of 2013. The villas in the first phase will be leased out to our target customers including the visitors of "Bayhood No. 9 Club" and/or members of "Bayhood No. 9 Club" on a medium-term basis.

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Sales and marketing

The completion of the first phase of the construction work of the Subject Land will make “Bayhood No. 9 Club” as an integrated resort under the concept “Home away from Home”. No alliance with travel agencies, international hotel network and distribution work is considered necessary as the sales and marketing team of the Target Group will work closely with the sales and marketing team of “Bayhood No. 9 Club” to approach target customers including members of “Bayhood No. 9 Club” and large-scaled Chinese and international enterprises.

“Bayhood No. 9 Club” will be regarded as an integrated resort with the completion of the project on the Subject Land, which will serve as the vital attraction to members of “Bayhood No. 9 Club” and other customers irrespective of whether a 5 starred ranking shall have been obtained.

Management of the villas

Part of the management of the villas, mainly for those with standardized procedures such as sanitation, security, gardening, etc. will be subcontracted to renowned property management companies under a tender procedure. Other than that, the Target Group will form a special service team to provide personalized services in accordance with tailored needs of individual customers. Customers are also welcomed to bring their own service team, such as their own drivers and home-keepers, to supplement our services.

Medium Term Plan

Construction of the villas

The Target Group will commence the second phase of the construction work of the Subject Land in the third quarter of 2013, which comprise 50–65 villas out of a total of 80–100 villas of the whole project. Half of villas in the second phase will be of the larger-sized ones for medium-term lease, and half of which will be of the smaller-sized ones mainly for short-term lease, especially for those “Bayhood No. 9 Club” members and their guests who can accommodate extended stay in the club. The larger-sized villas will be well furnished with facilities like private gardening, centralized air conditioning, garages, home theatre facilities, different kind of meeting rooms and function rooms such as gymnasium, wine/cigar cellar, etc. The smaller-sized villas will be equipped with less meeting rooms and function rooms as compared to the larger-sized ones. A centralized club house with swimming pools and dining facilities together with other ancillary facilities will also be constructed in the second phase. It is expected that the second phase will be completed in the third quarter of 2014.

Target customers

- Existing and future members of “Bayhood No. 9 Club”

Currently, upon requests by members playing golf in “Bayhood No. 9 Club”, basic accommodation facilities could be freely provided to them by “Bayhood No. 9 Club”. There were approximately 30–40 rooms with basic bedding facilities only. Obviously these basic facilities could not satisfy our members’ needs. The proposed hotel villas, partly available for short-term leasing, will be a perfect supplement to “Bayhood No. 9 Club” as members and their guests can accommodate extended stay in the club. Moreover, our members and their guests are also high-end

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customers who will be interested in luxury accommodation. The proposed hotel villas, part of which be leased for terms of at least one year, will be their perfect choice. “Bayhood No. 9 Club” could become an integrated resort area with the completion of the low density, double storey deluxe hotel villas.

- Private clubhouse for Chinese and international enterprises

As most of the hotel villas will be leased for terms of at least one year, they are equipped with all-inclusive facilities and spaces, with convenient business and housekeeping services available, enterprises may hold board meetings, management parties, private business dinners and even small press conferences, promotion events, exhibitions etc. Such hotel villas should serve the large Chinese and foreign enterprises that have no intention to purchase villas.

- Perfect residence for wealthy and high-end people

The internal space configuration of small-and-medium sized units is designed as homes or offices for professionals who will work in Beijing for a short period. Convenient access and all-inclusive supporting services will ensure hassle-free and relaxed daily life. The SPA and restaurants in the neighbourhood will also provide villa tenants with personalised private services.

Market Advantage

- The construction of hotel villa is not a villa-for-sale project or traditional hotel project. It is a rare project with no other products of its kind in the regions around Beijing or even throughout China so far.
- The Subject Land enjoys a premium location, west to the Fifth Ring Road in the north-eastern part of Beijing, the capital of PRC. Located in a flourishing urban area, the Subject Land is linked to the embassy areas and Beijing Capital International Airport by road connections. It is strategically situated in an easily accessible location to cater for the premium group of customers. Geographically, “Bayhood No. 9 Club” is just 3.5 km from Beijing Capital International Airport. Further, it is only about 25 km from the metropolitan region encompassing the city of Beijing, which is its political, economic, social, cultural and educational centre. Visitors can finish business in Beijing city and enjoy golf facilities of Bayhood No. 9 Club by staying in the villas. It also enjoys convenient access to the business area of Beijing. It is a perfect escape from the hustle and bustle in this metropolis. Currently, most of the new villa projects in Beijing feature Western architecture and are located in the suburbs such as Xiaotangshan and Shunyi. Villas of traditional Chinese architecture built in the urban area of Beijing are rare.

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RISK FACTORS

RISKS RELATING TO THE GROUP'S BUSINESS

The Target Group requires organizational capability to manage changes in key personnel and senior management

In order to develop, support and market its products, the Target Group must hire and retain highly skilled employees with particular expertise. The implementation of the Target Group's strategic business plans could be undermined by failure to recruit or retain key personnel, the unexpected loss of key senior employees, failures in the Target Group's succession planning and incentive plans, or a failure to invest in the development of key skills. Some of the markets in which the Target Group operates are experiencing economic growth and the Target Group must compete against other companies inside and outside the hospitality industry for suitably qualified or experienced employees. Failure to attract and retain these employees may threaten the success of the Target Group's operations in these markets. In addition, unless skills are supported by a sufficient infrastructure to enable knowledge and skills to be passed on, the Target Group risks losing accumulated knowledge if key employees leave the Target Group.

The development of hotel villas is subject to a number of risks beyond the Target Group's control, including insufficient growth in demand for hotel rooms

The Target Group may experience lower occupancy than expected or be required to adopt lower room rates to attract customers if future demand for the Target Group's hotel villas is lower than expected, which may cause the Group not being able to achieve a satisfactory return and have a material adverse impact on the Group's financial condition and results of operations.

The development of hotel villas is also subject to a number of additional risks, many of which are outside the Group's control, and those risks include but are not limited to:

- (i) delay in obtaining necessary licences or approvals from government authorities;
- (ii) shortages of labour, materials, equipment, contractors and skilled labour;
- (iii) social disorder and other extraordinary events; and
- (iv) political and regulatory risks.

Besides, the Target Group relies on a third party contractor for the construction of hotel villas and it is subject to risks relating to the performance of this contractor. There is no assurance that the construction of hotel villas will be completed on schedule without additional costs or that the services rendered by the third party contractor will fulfill the quality level required by the Target Group. The occurrence of any of these events could have a material adverse effect on the financial performance of the Group.

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The Group lacks experience in engaging in the hotel business

The Group intends to expand into the hotel business. Since the Group has no experience in engaging in the hotel business, the Directors cannot guarantee that it will be successful in generating sufficient revenue to make this business profitable. The success of such business depends on a number of factors, both within and outside the control of the Group, including the successful employment of the Group's experience from the provision of recreational and tourism services in PRC to hotel management services. Accordingly, evaluation of the Group's hotel business and its prospects is difficult, and there can be no assurance that the Group will succeed in this business.

The valuation on the development and operation rights of the Subject Land may be lower

The valuation on the development and operation rights of the Subject Land, which is one of the considerations on which the Group proceeds with the Proposed Acquisition, is arrived at by American Appraisal China Limited (the "Valuer") in the context of economic outlook and industry overview taken by the Valuer, and on the assumption of accuracy of information, data and representations provided to the Valuer. The value of the development and operation rights of the Subject Land may be lower if subsequent events adversely change the basis on which the views taken by the Valuer on the economy of PRC and the tourism industry in PRC. Similarly, the value would decline if the assumptions on which the Valuer based for the valuation are flawed.

Prohibited activities, accidents or injuries in the Group's hotel villas may adversely affect the Group's reputation and hold the Group liable

There are inherent risks of prohibited activities (such as illegal drug use, gambling, violence or prostitution by guests), accidents or injuries taking place in the Group's hotel villas. The occurrence of one or more prohibited activities, accidents or injuries at any of the Group's hotel villas could adversely affect the Group's safety reputation among guests, harm the Group's brand name, decrease the overall occupancy, and increase the costs of implementing additional safety measures. Moreover, if prohibited activities, accidents or injuries occur at any of the Group's hotel villas, the Group may be held liable for fines or damages. The Group's current property and liability insurance policies may not provide adequate or any coverage for such losses, and the Group may be unable to renew the insurance policies or obtain new insurance policies without paying higher premium.

RISKS RELATING TO THE HOTEL INDUSTRY

The hotel industry is subject to intense and growing competition

The hotel industry is highly competitive in PRC. The Group's competitors include operators of single guesthouses and hotels located in the vicinity of the Group's hotels, local hotel chains with multiple hotels, established property developers which have entered the hotel industry, and large international hotel chains operating multiple hotels under a variety of brand names. The competitiveness in the hotel industry is primarily based on the location of the hotel, price, property size, quality of rooms, amenities and facilities, hotel guest brand recognition and loyalty, geographic coverage and quality of services provided. Many of the competitors have operated in the industry for substantially longer periods of time than the Group and have accumulated more operational, managerial, sales and marketing experience, brand recognition, human resources and financial resources. The Directors cannot guarantee that some or many of the competitors will not engage in hotel business in markets in which

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the Group is operating or plan to operate, which will increase the supply of available hotel rooms in those areas and thereby increase competition and negatively impact the Group's occupancy and room rates. The Directors cannot guarantee that the Group will be able to successfully compete against the current and future competitors.

In addition, competition for hotel staff, particularly experienced ones, is intensive in the hotel industry. The Group's hotel staff interacts with the customers and are critical in maintaining consistent and high-quality services, and enhances the brand names and reputation. The Group must recruit and train qualified managerial and other employees on a timely basis to keep pace with the planned future growth. Due to rapid growth of the economy in PRC, there is a shortage in the supply of labour in the market. The Group needs to compete against other hotel operators which have substantially more established brand names that may potentially be perceived to be more attractive than the Group's brand names, which may offer better compensation, benefits and potential for career advancement and international exposure. The Group also needs to face competition for labour from other industries in PRC. If the Group fails to recruit, train and retain qualified managers and other employees, the quality of the Group's hotel services may deteriorate, which in turn may have a material adverse effect on the Group's brand names, business, financial condition and results of operations.

The hospitality industry is cyclical, and macroeconomic and other factors beyond our control can adversely affect and reduce demand for our hospitality products and services

The hospitality industry is cyclical. Macroeconomic and other factors beyond our control can reduce demand for hospitality products and services, including demand for hotel villas. Such factors include changes and volatility in general economic conditions, e.g. financial crisis in 2008. Those factors can adversely affect, and from time to time have adversely affected on the hospitality business as a whole. In particular, lower consumer demand resulting from the adverse impact from economic conditions will have negative effect on the hospitality industry.

The Target Group may face difficulties insuring its business

Historically, the Target Group has maintained insurance at levels determined by it to be appropriate in light of the cost of cover and the risk profiles of the business in which it operates. However, forces beyond the Target Group's control, including market forces, may limit the scope of coverage the Target Group can obtain and the Target Group's ability to obtain coverage at reasonable rates. Other forces beyond the Target Group's control, such as terrorist attacks or natural disasters may be uninsurable or simply too expensive to insure. Inadequate or insufficient insurance could expose the Target Group to large claims or could result in the loss of capital invested in properties, as well as the anticipated future revenue from properties, and could leave the Target Group responsible for guarantees, debt or other financial obligations related to such properties.

Continuous investment in repair and maintenance on the hotel villas

Continuous investment in repair and maintenance on the condition of hotel villas is necessary in order to maintain the quality of the service provided by hotel villas. In the event that the Target Group is unable to maintain the condition of hotel villas, services will be declined and revenue will be decreased accordingly.

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The seasonality of the hotel industry could have a material adverse effect on the Group's revenue and financial condition

The hotel industry is seasonal in nature and can cause fluctuations in the Group's revenue and financial conditions. This seasonality can be expected to cause periodic fluctuations in the Group's occupancy, hotel room rates and operating expenses. The results of operations are affected by seasonal fluctuation in demand for hotel services.

The Group is subject to renewal of various licences and various health, safety, environmental and hotel industry-related laws and regulations that may subject the Group to liability

The Group is required to obtain applicable licences and renew them from time to time for the operation of its hotel business. The Group does not have automatic rights of renewal to the licences. The Directors cannot guarantee that the conditions or requirements the Group may be required to satisfy or meet will not change from time to time. If the Group is unable to renew the licences in a timely manner or if the relevant government authority does not approve the application for a renewal of the licences, the Group may be subject to fines or penalties and may be required to cease the hotel operations, which may have a material adverse effect on the Group's financial condition and results of operations.

The Group's business is also subject to various health, safety and environmental laws and regulations, including fire prevention, public safety, health and sanitary requirements. Therefore, there could be risks of monetary damages, the imposition of fines, or the suspension or disruption of operations, which could materially adversely affect the financial condition and results of operations. Furthermore, the failure to obtain environmental approvals from local environmental protection agencies and non-compliance with applicable health and safety regulations may subject the hotels to fines or suspension of operations, which could materially adversely affect the financial condition and results of operations. New regulations could also require the Group to retrofit or modify the hotels or incur other significant expenses.

RISKS RELATING TO PRC

Adverse changes in economic and political policies of PRC government could have a material adverse effect on the overall economic growth of PRC, which could adversely affect business of the Group

The PRC's economy is different from the economies of most developed countries in many respects, including the level of government intervention, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors. In addition, the PRC has also experienced a recent reduction on its economic growth as part of the world financial crisis. The PRC government has executed various measures to encourage economic development and guide the allocation of resources. While some of these measures benefit the overall PRC economy, they may also have a negative effect on the Group. For instance, the Group's results of operations and financial condition may be adversely affected by government control over capital investments or changes in environmental, health, labour or tax regulations.

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The Group is subject to the laws and regulations of PRC, changes in PRC governmental laws and regulations or non-compliance with applicable laws and regulations may have a significant impact on the Group's business, financial condition and results of operations

The Group's business and operations are subject to the laws and regulations of PRC. The continuance of the Group's operations depends upon compliance with, *inter alia*, applicable environmental, health, safety, labour, social security and other laws and regulations. Although the Group has used its best endeavour to comply with applicable laws and regulations, the Group may be unable to comply with all such laws and regulations, which could result in fines, penalties or lawsuits. In particular, there is no assurance that the Group will be able to comply fully with applicable laws and regulations should there be any amendment to the existing regulatory regime or implementation of any new laws and regulations. In addition, the Group's business and operations in PRC entail the procurement of licences and permits from the relevant authorities. Thus, the Group's business and operations in PRC are subject to the PRC government rules and regulations. Any changes in such government rules and regulations may increase the Group's costs of compliance and have a negative impact on the Group's business, financial condition and results of operations. Difficulties or failure in obtaining the required permits, licences and certificates will result in the Group's inability to continue the Group's business in PRC. Accordingly, the Group's business, financial condition and results of operations may be adversely affected.

The Group's labour costs may increase as a result of the PRC Labour Contract Law

The PRC Labour Contract Law, which became effective on 1 January 2008, imposes requirements on employers concerning, among others, the types of contracts to be executed between an employer and an employee, and establishes time limits for probation periods and for fixed-term employment contracts. It also requires the employer to contribute to social insurance and housing funds on behalf of its employees.

As a result of the PRC Labour Contract Law, the Group's labour costs may increase, which would in turn lead to an increase in the Group's overall operating expenses. The Group may not be able to pass these increases on to the Group's customers due to competitive pricing pressures. If the Group is subject to large penalties or fees related to the PRC Labour Contract Law or the Group's labour costs increase, the Group's business, financial condition and results of operations may be materially and adversely affected.

The Company is a holding company and relies on dividend payments from its operating subsidiaries

The Company is a holding company and conducts all of its business through its operating subsidiaries in PRC. As a result, its ability to pay dividends depends on dividends and other distributions received from its operating subsidiaries. If the Company's subsidiaries incur debt or losses, it may impair their abilities to pay dividends or other distributions to the Company, which could adversely affect the Company's ability to pay dividends to the Shareholders.

Under current PRC laws, dividends of PRC companies can be paid only out of the after-tax profits calculated according to PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions. Furthermore, PRC laws require foreign invested enterprises, such as the Company's operating subsidiaries in PRC, to set aside part of their net profit as

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statutory reserves. The Company's PRC subsidiaries are required to set aside each year at least 10% of its after-tax profits for such year, as reported in its PRC statutory financial statements, to the statutory surplus reserve of such PRC subsidiaries. Such reserve may not be discontinued until the accumulated amount has reached 50% of the registered capital of the PRC subsidiaries. These statutory reserves are not available for distribution to the Company, except in liquidation. The calculation of distributable profits under the PRC Accounting Standards and Regulations differs in certain aspects from the calculation under HKFRS. As a result, the Company's subsidiaries in PRC may not be able to pay any dividend in a given year to the Company if they do not have distributable profits as determined under the PRC Accounting Standards and Regulations, even if it has profits for that year as determined under HKFRS.

Limitations on the ability of the Company's PRC subsidiaries to remit their entire after-tax profits to the Company in the form of dividends or other distributions could adversely affect the Company's ability to grow, make investments that could be beneficial to its business, pay dividends and otherwise fund and conduct its business. The Company cannot assure that its subsidiaries will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to the Company to enable the Company to pay dividends to the Shareholders.

In addition, restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that the Company or its subsidiaries may enter into in the future may also restrict the ability of the Company's subsidiaries to pay dividends or make distributions to the Company. These restrictions could reduce the amount of dividends or other distributions the Company receive from the Company's subsidiaries, which in turn would restrict its ability to pay dividends to the Shareholders.

The Target Group is exposed to the risk of litigation

The Target Group could be at risk of litigation from many parties, including guests, customers, joint venture partners, suppliers, employees, regulatory authorities, franchisees and/or the owners of hotels managed by it. Claims filed in the PRC may include requests for punitive damages as well as compensatory damages. Exposure to litigation or fines imposed by regulatory authorities may also affect the reputation of the Group.

LAW AND REGULATIONS

1. Laws governing Security and Fire Control

According to 旅館業治安管理办法 (Measures for the Control of Security in the Hotel Industry), which came into effect on 10 November 1987, an application for establishing a hotel in PRC shall be made with approval of the supervisory authority and with the opinions of the local public security endorsed thereon, and a hotel is permitted to begin operation only after lawful registration and obtaining 營業執照 (Business License). If the hotel wishes to suspend operations, change its line of business, amalgamate, relocate, change its name etc., it shall report the details to the local public security bureau or branch bureau at county or at the municipal level for filing. According to 北京市旅館業治安管理规定 (Regulations for the Control of Security in the Hotel Industry of Beijing), which came into effect on 1 February 2007, an application shall be made to the local public security organ in order to establish a hotel in PRC. The local public security organ will grant 特種行業許可證 (Special Industry Permit) if the regulatory requirements are satisfied. Further, safety checks will be conducted on the hotels by the public security organ. If problems were discovered from the checks, the public security organ will

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require the hotel in breach to remedy the problem. If a hotel breaches 北京市旅館業治安管理规定 (Regulations for the Control of Security in the Hotel Industry of Beijing), the public security organ could impose a fine and/or impose penalties such as the suspension of the operation of the hotel under the said regulations or 治安管理處罰法 (the Public Security Administration Punishment Law).

According to 機關、團體、企業、事業單位消防安全管理規定 (Provisions on the Administration of Fire Safety of State Organs, Organisations, Enterprises and Institutions), which came into effect on 1 May 2002, hotels, restaurants and spas are classified as key administrative units of fire control safety. Examination procedures for fire control design shall be gone through in respect of any construction and decoration and replacement work of a hotel, and the hotel may only commence the business after passing the inspection and acceptance over fire control upon completion of the work.

2. Administration of Sanitation in Public Places

According to 公共場所衛生管理條例 (Regulations on the Sanitary Administration of Public Places), which came into force on 1 April 1987, hotels, restaurants and spas are included in the sanitary administration area of public places and a sanitation permit shall be obtained. The sanitation permit shall be reviewed every two years. According to 關於做好《餐飲服務許可證》啟用及發放工作的通知 (Notice of Good Practice Regarding the Operation of Catering Service License) issued by 國家食品藥品監督管理局 (State Food and Drug Administration), which came into effect on 22 May 2009, and based on the verbal confirmation by the relevant management of 北京市衛生局 (Beijing Municipal Bureau of Health), catering service enterprises in Beijing are currently only required to obtain 《餐飲服務許可證》 (Catering Service License), but they are not required to obtain a separate sanitation permit. According to 餐飲服務許可管理辦法 (Administrative Measures for the Licensing of Catering Services), which came into effect on 1 May 2010, the validity period of 《餐飲服務許可證》 (Catering Service License) is for 3 years. If a catering service provider wishes to extend its 《餐飲服務許可證》 (Catering Service License), it should file an application to extend the said license at the licensing bureau which had issued the said license 30 days before its expiry date.

According to 公共場所衛生管理條例實施細則 (Implementing Rules of Regulations on the Sanitary Administration of Public Places), which was revised on 12 February 2010, staff who serve the customers directly (including temporary workers) must conduct a health check once a year and obtain a health certificate before the staff commence work.

3. Administration of Food Safety

According to 食品安全法 (Food Safety Law), which came into effect on 1 June 2009, the PRC adopts a licensing system for food production and operation. Any enterprise or individual engaged in food production, operation and catering services shall obtain 食品生產許可 (Food Production License), 食品流通許可 (Food Circulation License) and 餐飲服務許可 (Catering Service License). The Food Production License, Food Circulation License and Catering Service License are issued by the food and drug administrative department at county level or higher. Restaurants must be in compliance with the relevant standards and requirements regarding food sourcing and storage, food processing, dining utensils, restaurant service and sanitary administration of take-away food. A catering service provider which has obtained a 餐飲服務許可 (Catering Service License) shall not be required to obtain a Food Production License or a Food Circulation License to provide catering services.

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According to 中華人民共和國水生野生動物利用特許辦法 (Aquatic Wildlife Special Permit of PRC), which was revised on 1 July 2004, approval must be sought from 漁業行政主管部門 (Fisheries Administration Department) at provincial level or higher and 水生野生動物經營利用證 (Aquatic Wildlife Operation Permit) shall be obtained before one can begin to sell, acquire, or use aquatic wildlife or their products for scientific research, breeding or exhibiting purposes. 水生野生動物經營利用證 (Aquatic Wildlife Operation Permit) shall be reviewed annually and the validity period for the said permit is for a maximum of 5 years.

4. Administration of Culture

According to 衛星電視廣播地面接收設施管理規定 (Requirements concerning the Administration of Television Programs and Film Broadcasts), which came into effect on 3 February 1994, hotels rated three-star or second class (national standard) or above with the capability of accommodating foreign visitors may apply to install ground satellite receiving facilities in order to receive interrupted foreign entertainment programs transmitted via satellites to local administrative departments of radio and television at county or municipal level. Upon completion of installing ground satellite receiving facilities, the enterprises would be issued 接收衛星傳送的境內電視節目許可證 (A Permit to Receive Local Television Programs Transmitted via Satellites) by the approving authority. According to the verbal confirmation by the relevant management of 北京市廣播電影電視局 (Beijing Bureau of Radio, Film, and Television), 北京市廣播電影電視局 (Beijing Bureau of Radio, Film, and Television) does not currently compulsorily require all hotels to obtain 接收衛星傳送的境內電視節目許可證 (A Permit to Receive Local Television Programs Transmitted via Satellites). However, hotels are usually required to obtain the said permit if it applies for rating.

5. Administration of Sewage and Pollutant Discharge

According to 城市排水許可管理辦法 (Administrative Measures for Urban Sewage License) and 建設部關於納入國務院決定的十五項行政許可的條件的規定 (Regulations on Conditions for 15 Administrative Licensing Items to be Determined by The Ministry of Construction), which came into effect on 1 December 2004, enterprises which connect or which plan to connect with the urban water discharging facilities to discharge their sewage shall apply for 城市排水許可證 (urban sewage discharge permit) from the competent urban construction department within their locations. According to 城市排水許可管理辦法 (Administrative Measures for Urban Sewage License), which came into effect on 1 March 2007, the validity period of the 城市排水許可證 (urban sewage discharge permit) is 5 years. Applications for the renewal of 城市排水許可證 (urban sewage discharge permit) shall be made to the sewage administration department 30 days before its expiry date. The sewage administration department shall review the application and consider whether to renew the permit for a further period of 5 years before its expiry date.

Pursuant to 中華人民共和國水污染防治法 (Law of Prevention and Treatment of Water Pollution of PRC), which was amended on 8 February 2008 and its rules of implementation, enterprises must obtain 排污許可證 (sewage discharge permit) before directly or indirectly discharging industrial sewage, medical sewage, other polluted wastes or sewage which require enterprises to possess 排污許可證 (sewage discharge permit) into water system. According to the verbal confirmation by 北京市環境保護局 (Beijing Municipal Environmental Protection Bureau) and 北京市朝陽區環境保護局 (Beijing

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ChaoYang District Municipal Environmental Protection Bureau), enterprises which have been granted 排水許可證 (sewage discharge permit) by 水務局 (Water Authority) are not required to obtain a separate 排污許可證 (sewage discharge permit).

6. Administration of the Safety of Special Equipment

According to 特種設備安全監察條例 (Regulations on Special Equipment Safety Inspection), which was revised on 24 January 2009, certain equipment, such as lifts (elevators and escalators), boilers and pressure vessels are classified as special equipment and they shall be registered with the municipal special equipment safety supervision and administration department of a directly governed city or city with districts before or after such equipment is put into use. Regular examination shall also be performed on such equipment in accordance with technical safety standards. The exact duration of the period of validity for safety inspection of the special equipment is not specified in the relevant laws and regulations of PRC. According to 特種設備安全監察條例 (Regulations on Special Equipment Safety Inspection), the user of special equipment shall request for regular examination by the relevant municipal special equipment safety supervision and administration department 1 month before the expiry date of the period of validity for safety inspection in accordance with technical safety standards. Special equipment which was not regularly examined or which did not meet the technical safety standards shall not be used.

7. Administration of Sale of Tobacco and Alcohol

According to 中華人民共和國煙草專賣法 (the Laws of PRC on Tobacco Monopoly), which was revised on 27 August 2009, any enterprise or individual engaging in the retail trade of tobacco products shall obtain a 煙草專賣零售許可證 (License for Tobacco Monopoly Retail Trade) which will be issued after examination and approval by the administrative department for industry and commerce under the people's government at the county level on the commission of the department of tobacco monopoly administration at the next higher level. The validity period for the said license is for a maximum of 5 years. In areas where departments of tobacco monopoly administration at the county level have been set up, such departments may, after their examination and approval, also issue tobacco monopoly retail licenses. According to 煙草專賣許可證管理辦法 (the Administrative Measures for Tobacco Monopoly Licenses), which came into effect on 7 March 2007, the maximum validity period for 煙草專賣許可證 (Tobacco Monopoly License) is 5 years. Applications to the department of tobacco monopoly administration shall be filed 30 days before the expiry date of 煙草專賣許可證 (Tobacco Monopoly Licenses).

According to 酒類流通管理辦法 (the Measures for Administration of Alcohol Circulation), which came into effect on 1 January 2006, the liquor operator shall, within 60 days of acquiring a business license, make the archival filing and registration formalities in the competent department of commerce at the same level as the administrative department for industry and commerce where the registration is handled according to the principle of territorial administration.

The PRC legal advisers of the Company have confirmed that there are no specific PRC government policies, regulations and measures relating to the development and management of serviced apartments.

The PRC legal advisers of the Company have also confirmed that no specific licenses, permits and certificates are required for the Target Company to develop and operate the serviced apartment business on the Subject Land.

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Based on the above, the Company only has to obtain the licenses, permits and certificates regarding the management of hotels in PRC. Since the first and second phases of the project are expected to be completed in the third quarter of 2013 and in the third quarter of 2014, the operation of the PRC Company's hotel business has not commenced and the PRC Company has not applied for the relevant licenses, permits or certificates that are required for the operation of the hotel business.

Construction Plan of the Target Group

The development of the Subject Land will be subject to two phases. The first phase, representing around 40% of the whole construction project, will commence in the third quarter of 2012 and is expected to be completed in the third quarter of 2013.

The second phase, representing the remaining 60% of the construction project, will commence in the third quarter of 2013 and is expected to be completed in the third quarter of 2014.

Estimated Capital Commitment of the Group:

RMB

First Phase	335 million
— Civil Engineering Construction	88 million
— Interior decoration and furniture	152 million
— Other (ventilation, air-conditioning, water and sewage, electricity, fire prevention)	80 million
— Gardening	15 million
Second Phase	503 million
— Civil Engineering Construction	132 million
— Interior decoration and furniture	228 million
— Other (ventilation, air-conditioning, water and sewage, electricity, fire prevention)	120 million
— Gardening	23 million

On 11 April 2012, the Target Group has entered into a subcontracting agreement with a PRC contractor, an independent third party to the Vendor, the Company and their respective connected persons. The PRC contractor is one of the largest state-owned construction companies in the PRC with registered capital of over RMB3 billion. The PRC contractor possesses the necessary professional qualifications for real estate development, construction, renovation, road and bridge construction, gardening and virescence engineering, etc., in the PRC. The PRC contractor was involved in various construction projects in different cities, including Beijing, Haikou and Xiamen, covering residential and commercial buildings. Pursuant to such subcontracting agreement, (i) the construction cost of the first phase will only be paid within 18 months upon completion of the verification of the quality of the construction of the first phase; and (ii) the construction cost of the second phase will only be paid within 18 months upon completion of the verification of the quality of the construction of the second phase.

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The capital commitment for the first phase of 335 million will be settled by the Company in view of the following cash inflow 18 months after the completion of the construction of the first phase (expected to be by the first quarter of 2015):

	<i>RMB million</i>
Cash on hand as at 31 December 2011 of approximately HK\$201 million	165*
After-tax earning before interests, depreciation and amortization of the Target Group by 31 December 2013 (<i>Note 1</i>)	52
After-tax earning before interests, depreciation and amortization of the Target Group for the year ended 31 December 2014 (<i>Note 1</i>)	<u>285</u>
Total	<u>502</u>
Estimated first phase capital commitment	<u>(335)</u>
Surplus	<u><u>167</u></u>

(*exchange rate: RMB1 = HK\$0.82)

The capital commitment for the second phase of 503 million will be settled by the Company in view of the following cash inflow 18 months after the completion of the construction of the second phase (expected to be by the second quarter of 2016):

	<i>RMB million</i>
Surplus cash after settlement of first phase capital commitment	167
After-tax earning before interests, depreciation and amortization of the Target Group for the year ended 31 December 2015 (<i>Note 1</i>)	290
After-tax earning before interests, depreciation and amortization of the Target Group for the 3 months ended 31 March 2016 (<i>Note 2</i>)	<u>77</u>
Total	<u>534</u>
Estimated second phase capital commitment	<u>(503)</u>
Surplus	<u><u>31</u></u>

Notes:

1. Please refer to page 195 of Appendix IV Valuation Report on the development and operation rights of the Subject Land, which is earning before income tax depreciation and amortization (EBITDA) after deducting income tax expense.
2. Please refer to EBITDA after deducting income tax expenses of year 5 of Table 3 in page 195 of Appendix IV Valuation Report on the development and operation rights of the Subject Land which is calculated on pro-rate basis.

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The above estimation has not taken into account the expected net cash inflow arising from the Group's existing operation, such as the return of investments in movies and TV dramas (approximately HK\$73 million of which would be generated from guaranteed-return contracts pursuant to which the timing and amount of return have been pre-fixed) and the cash flow generated from the operation of "Bayhood No. 9 Club".

The estimated capital commitment of the development by the PRC contractor for the first phase and the second phase is in line with the comparable market construction cost as stated in the valuation report in Appendix IV.

The subcontracting agreement has included the terms of payments based on construction progress until a specified maximum percentage of the total contract sum is paid.

As the construction work is outsourced to PRC contractor, the subcontracting agreement in which the Target Group entered into typically contain warranties with respect to quality and timely completion of the construction on the Subject Land. The Target Group will require the PRC contractor and the terms of the subcontracting agreement to comply with the relevant PRC laws and regulations as well as its own standard and specifications. The Target Group will closely monitor the quality, cost control and construction progress during construction. In the event of unsatisfactory quality of workmanship, the Target Group will reject such work until it is completed to its satisfaction. To ensure quality and monitor the progress and workmanship of the construction of the Subject Land, the Target Group will also engage certified construction supervision companies to monitor certain aspects of the construction as specified by the relevant regulations. The PRC contractor is also subject to the quality control procedures of the Target Group, including appointment of internal on-site inspection. The most important quality monitors during the construction process are the qualified construction supervisor-engineers, who conduct on-site quality inspection of the construction work on a daily and continuous basis, and who are authorized to tear down sub-standard work if necessary. The Target Group will formulate its internal quality assurance standards and systems to regulate all major processes and procedures in the construction of the Subject Land, including construction works, water and electricity systems, pipe networks, landscaping, fitting-out works, interior design and decoration, controls over raw materials and equipment supply.

As at the Latest Practicable Date, the PRC contractor has yet to commence the construction work of the Subject Land.

Material terms of the Second Cooperation Agreement entered into between the PRC Company and 北京朝來 (Beijing Chao Lai*)

Parties: The PRC Company
 北京朝來 (Beijing Chao Lai*)

Period: 30 January 2012 to 31 May 2048

Material Terms

- The PRC Company has been granted the development and operation rights of the Subject Land and will be in charge of the daily operation and management of the Subject Land up to 31 May 2048.

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- The PRC Company plans to build premier low-density double storied deluxe hotel villas and conferencing facilities equipped with basement on the Subject Land with a total gross area of approximately 80,404 square meters. The developments on the Subject Land could not be sold to external parties.
- The PRC Company guarantees to contribute an annual guaranteed profit of RMB6 million from 30 January 2012 to 31 May 2048 as fees for the development and operation rights of the Subject Land to 北京朝來 (Beijing Chao Lai*). Such annual fee is subject to an increase of 10% every 5 years starting from 1 June 2013.
- 北京朝來 (Beijing Chao Lai*) will not be entitled to any profit arising from the development and operation rights of the Subject Land save for the above annual distributions from the PRC Company.
- The PRC Company guarantees the fair value of all the developments on the Subject Land at the expiry of the Second Cooperation Agreement will not be lower than RMB65 million.
- The Second Cooperation Agreement can only be terminated if both parties agree to the termination; and
- The PRC Company will have first right of renewal to renew the Second Cooperation Agreement upon its expiry.

The PRC Company has also agreed to reimburse all the expenses incurred by Beijing Chao Lai in relation to obtaining the relevant licenses or certificates for the development and operation of the Subject Land. Up to the Latest Practicable Date, such expenses to be reimbursed by the PRC Company amounted to approximately RMB1.5 million. The PRC Company will not reimburse any costs incurred by Mr. Yuen. No material reimbursement to be incurred in the future is expected by the Company as at the Latest Practicable Date.

Save for the above, there are no material terms that the Board would like to draw the attention of the Shareholders.

POTENTIAL CONTINUING CONNECTED TRANSACTION

As Beijing Chao Lai will become a subsidiary of Zhou Hai Tong Da upon the payment of the compensation amount for the land use right of the Subject Land by Zhou Hai Tong Da on behalf of Beijing Chao Lai, the Company will comply with the relevant Chapter 14A requirements about the annual payment of RMB6 million (subject to an increase of 10% every 5 years starting from 1 June 2013) to Beijing Chao Lai when it becomes a subsidiary of Zhou Hai Tong Da.

FINANCIAL INFORMATION OF THE TARGET GROUP

No audited financial statements of the Target Company, the Hong Kong Company and the PRC Company have been prepared since their incorporation on 9 June 2011, 11 July 2011 and 11 January 2012 in the BVI, Hong Kong and the PRC, respectively.

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The following is the financial information of the Target Group as extracted from the accountant's report on the Target Group as set out in Appendix II to this circular from the date of incorporation of the Target Company on 9 June 2011 up to 31 December 2011 and the period from 1 January 2012 to 31 March 2012, respectively, which was prepared in accordance with Hong Kong Financial Reporting Standards:

	From 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011 HK\$'000	From 1 January 2012 to 31 March 2012 HK\$'000
Turnover	Nil	Nil
Loss before taxation	7	1
Taxation	Nil	Nil
Loss after taxation	7	1
	As at 31 December 2011 HK\$'000	As at 31 March 2012 HK\$'000
Net liabilities	7	8

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

The Group is engaged in (i) media business; (ii) properties investment through jointly controlled entities; and (iii) the provision of high-end recreational and tourism services through the management of "Bayhood No. 9 Club". "Bayhood No. 9 Club" is a membership-based luxury golf club near the city centre of Beijing and comprises an 18-hole championship golf course, an unique double-storey practice bays, the first PGA branded and managed golf academy in Asia, theme dining rooms serving Chinese and Western cuisine, spa facilities and retail shops. The Group acquired "Bayhood No. 9 Club" in 2011 from Mr. He Peng who has been acquainted with Mr. Yuen, the Chairman, an executive Director and a substantial shareholder of the Company, for more than 10 years. Mr. He and Mr. Yuen met each other through a co-investment in a media project in year 2000. Although the Subject Land is adjacent to "Bayhood No. 9 Club", the Company did not contemplate the Proposed Acquisition by January 2011 or any other date before the Shareholders' meeting for the acquisition of "Bayhood No. 9 Club". The Company commenced negotiations with the Vendor in early March 2012 when the Vendor noticed that Beijing Chao Lai will soon be able to obtain the Rural Construction Planning Permit (鄉村建設規劃許可證) of the Subject Land.

The Group intends to develop the Subject Land as the extension of "Bayhood No. 9 Club". Low density, double-storey deluxe hotel villas and conferencing facilities equipped with basement, luxurious amenities and gardening will be built on it. They will be operated in the form of serviced apartments and leased out on short to medium terms. As "Bayhood No. 9 Club" is currently only equipped with golf, spa, dining and retail facilities, the development and operation of serviced apartments in the vicinity enables the Group to provide more comprehensive services to customers. Current and potential

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members of “Bayhood No. 9 Club” are considered to be the target customers for the project, which will also be branded as “Bayhood No. 9”. Visitors can finish business in Beijing city and enjoy golf facilities of “Bayhood No. 9 Club” by staying in the villas. The Group believes that the Proposed Acquisition will create considerable synergies to it and help it to tap further into the high-end recreational and tourism services sector in which visitors prefer to stay longer at serviced apartments. The interlock between golf and serviced apartments is very well established. Golf facilities in a superb natural environment attract regular visitors looking at serviced apartments as their vacation homes.

Driven by the robust growth of the Chinese economy, the consuming power of local residents, especially the top niche group, has substantially increased. There is growing number of people who have developed a strong interest in and can afford luxurious residences or vacations with golf course and comprehensive club facilities. According to the recent Global Wealth Report issued by Credit Suisse in October 2011, the PRC was one of the six countries with the highest wealth increase and had about 10.17 million millionaires. This figure is expected to double in the coming five years. The Board believes that the increasing number of wealthy people in the nation will create a favourable environment for the luxury residences and vacations market which has plenty of room for growth in the PRC.

The development and operation of the project near “Bayhood No. 9 Club” puts the Group in a better position to capture business opportunities that may arise in the market. Moreover, the expansion of high-end recreational and tourism services business will boost the Group’s revenue base and profitability, laying a solid foundation for its sustainable development.

In view of the above factors, the Directors are of the view that the Proposed Acquisition is in the interest of the Company and the Independent Shareholders as a whole.

Up to the Latest Practicable Date, the Company does not contemplate any intention, negotiation, agreement, arrangement and understanding (concluded or otherwise) about any disposal, scaling down and/or termination of its existing businesses, particularly the media business, and/or major operating assets. The Vendor and/or Mr. Yuen do not intend to nominate any director/senior management to the Company in view of the Proposed Acquisition.

MANAGEMENT EXPERIENCE OF THE ENLARGED GROUP

(i) Mr. Yuen Hoi Po (“Mr. Yuen”)

Mr. Yuen, aged 49, has been appointed as the Chairman and Executive Director of the Company in August 2010. Mr. Yuen is also a shareholder and a director of Ming Bang Limited which is a substantial shareholder of the Company pursuant to Part XV of SFO. Mr. Yuen currently serves as a member of the standing committee of Beijing Youth Federation. Mr. Yuen has acquired extensive experiences in the commercial sector including trading, property development and management, tourism and services since 1990.

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In 2005, Mr. Yuen was appointed as senior vice president of Beida Jade Bird Group, mainly responsible for the sectors of cultural media and real estate, including the following property development and management projects:

- (i) Forest Hill, being located at Chaoyang Park, Beijing, and established in 2005, consisting of 155 luxurious detached villas, each of which has a basement, a private garden and a garage.
- (ii) Beijing Richmond Park, being located at the Chaoyang District, Beijing, and completed in 2006, containing 306 apartments with club house facilities.

Mr. Yuen was the project in-charge for the above and was responsible for, including but not limited to, the concept formulation and customer targeting, the selection of design plan and construction material, the co-ordination of the construction team, and the quality control.

(ii) Mr. Christony Lau (“Mr. Lau”)

Mr. Lau, aged 54, is the Director of Quality Control and Training of “Bayhood No. 9 Club”. Mr. Lau has accumulated over 20 years of experience in quality control, training and human resources management of 5-star hotels and service apartments, luxury resorts, and clubhouses in PRC, such as Beijing Pangu Sever Star Hotel (北京盤古七星酒店), Hangzhou Fuchun Resort and Apartments (杭州富春山居度假村), Shanghai Four Seasons Hotels and Resorts (上海四季酒店), etc. Mr. Lau holds a Diploma in Hotel Management from the Switzerland Les Roches International School of Hotel Management.

Mr. Lau possesses extensive experience in the field of quality control, training and human resources management of 5-star hotels and service apartments, luxury resorts, and clubhouses. As such, he will make use of this valuable experience in establishing the training program for the human resources of the Target Group which will involve (in the service industry to some premium members) upon completion of the construction plan.

(iii) Ms. Ye Yi Chen (“Ms. Ye”)

Ms. Ye, aged 33, is the Director of Planning of the Target Group. Ms. Ye has accumulated over 10 years of experience in marketing, project planning and management. Ms. Ye has been responsible for the concept formulation, customer targeting, strategic planning, and government relationship coordination for the proposed construction on the Subject Land. Before joining the Target Group, Ms. Ye has been in-charge of the marketing and sales and leasing of a property development in Beijing. Ms. Ye holds a Bachelor of Science Degree in City Planning from the Beijing University.

Ms. Ye possesses broad experience in the field of marketing, project planning and management, which will enhance the management quality of the Target Group. As such, she will make use of her valuable experience in (i) the co-ordination of the construction plan of the Subject Land; and (ii) the marketing plan of the hotel villas upon completion of the construction plan of the Subject Land to the members of “Bayhood No. 9 Club”.

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CONTRIBUTION OF MR. YUEN TO THE PROPOSED DEVELOPMENT ON THE SUBJECT LAND

Mr. Yuen has invested approximately RMB95 million into the proposed development on the Subject Land, including the annual guaranteed profit paid to Beijing Chao Lai since May 2008 (RMB24 million), survey, design, consulting and professional fees incurred for the permits and licenses for the operation and development of the Subject Land (RMB26 million), costs for land evacuation, leveling and basic infrastructure (RMB29 million), salaries and general overhead expenses (RMB16 million), which will not be reimbursed by the Group or Target Group. Such amount has not been taken account in the discounted cash flow model by the Valuer. In addition to the monetary investment from Mr. Yuen, Mr. Yuen and his team have assisted Beijing Chao Lai to successfully obtain the relevant Rural Construction Planning Permit (鄉村建設規劃許可證) issued by Beijing Municipal Commission of Urban Planning (北京市規劃委員會), which is a crucial permit for the proposed development of a total gross area of approximately 80,404 square meters on the Subject Land. Mr. Yuen and his team have also assisted Beijing Chao Lai to successfully obtain the following approvals and permits which are relevant to the proposed development on the Subject Land:

- Project approval by Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會) and Beijing Municipal Commission of Urban Planning (北京市規劃委員會)
- Land use approval by Beijing Municipal Bureau of Land and Resources, Chaoyang Branch (北京市國土資源局朝陽分局)
- Environmental impact approval by Environmental Protection Bureau of Chaoyang District Beijing Municipality (北京市朝陽區環境保護局)
- Energy saving planning approval by Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會)
- Transportation planning approval by Beijing Municipal Commission of Transport (北京市交通委)
- Civil defence planning approval by Beijing Municipal Bureau of Civil Defence (北京市民防局)
- Virescence planning approval by The Virescence Bureau of Chaoyang District Beijing Municipality (北京市朝陽區園林綠化局)

The Target Group could not proceed with the planning, construction and operation on the Subject Land without the above permits and approvals. These permits and approvals in relation to the proposed development on the Subject Land by the Target Group are unique to the project and are not transferrable. All these intangible contributions by Mr. Yuen justifies the substantial increment in the Consideration. Therefore, the Board is of the view that the Consideration is fair and reasonable and in the interests of the Company and its Independent Shareholders as a whole.

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Due diligence by the Group on the Proposed Acquisition

The Company has studied the following aspects in order to ensure the feasibility of the prospect of the Target Group:

1. The Company has engaged PRC legal adviser to (i) perform search and investigation on the legal title of the Subject Land, and (ii) review material contracts of the Target Group since its incorporation. In accordance with the legal opinion, the reorganization can properly mitigate the Company's risk exposure to the contingent liability. No legal impediment in obtaining licenses which are relevant to the Target Group's future operation is foreseeable as at the Latest Practicable Date.
2. The Company has gone through various designs of 5-star hotels and has chosen a design concept which integrates traditional Chinese culture with modern elements. Such concept will be used in the design of the villa in the first phase of construction of the Subject Land. While studying the demand for the 5-star hotel, the Company has also analysed the service and facilities demanded by the customers. In respect of the demand from the customers, they look for supreme customers services and comprehensive business center facilities while staying in the hotel, including but not limited to the record of their preferred fragrances in the room, one-to-one relationship manager and convenient transportation arrangement.
3. The market of hotel industry in Beijing is lack of 5-star hotels with Chinese culture. Only a few Chinese style hotels can be located for inspection and studies in assessing the feasibility of the proposed Acquisition, including Aman at Summer Palace (北京安縵頤和), Beijing Pangu 7 Star Hotel (北京盤古七星酒店), China Club (中國會) and Beijing Hong Kong Jockey Club (北京香港馬會會所). The conclusion is that there is demand for the 5-star hotel with Chinese culture, which has not been satisfied by the existing supply of the hotel participants.
4. The Company has discussed with the management of "Bayhood No. 9 Club" in respect of the cost and benefit from the Proposed Acquisition, in particular, whether the offer of premium accommodation to the existing members of "Bayhood No. 9 Club" will enhance the competitiveness of "Bayhood No. 9 Club".
5. The Company has conducted research on the industry overview regarding the future prospect of tourism industry in Beijing, which has been disclosed under the section of "Industry Overview".

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is a discussion and analysis of the Target Group's results of operation for the period from 9 June 2011 to 31 December 2011.

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Management discussion and analysis for the period from 9 June 2011 to 31 December 2011

Financial performance

The Target Group reported no turnover for the period from 9 June 2011 to 31 December 2011. During this period, the consolidated net loss to the Target Group was HK\$6,998, which is mainly attributable to the administrative expenses of HK\$7,020, which consists of HK\$6,720 of legal and professional fee and HK\$300 of bank charges.

Business review and prospect

The Target Group was established since 9 June 2011 and did not engage in any business within the period from 9 June 2011 to 31 December 2011. The major asset held by the Target Group is the licenses and certificates in relation to the development and operation of the Subject Land, where the Company intends to develop the Subject Land into low density, double storey deluxe hotel villas equipped with basement, luxurious amenities and gardening supplemented by conferencing facilities, swimming pools, pavilions, covered walkways and statues. The Directors are of the view that the business outlook of the Target Group is positive based on the conclusion under the section named “Industry Overview of the business of the Target Group” in the letter from the board.

Liquidity and financial resources

As at 31 December 2011, the consolidated net current liabilities of the Target Group were HK\$6,990. Out of the consolidated current assets of HK\$793,010 as at 31 December 2011, amount of HK\$793,002 were cash and bank balance. As at 31 December 2011, the current liabilities of the Target Group were HK\$800,000. The current ratio of the Target Group as at 31 December 2011 was 0.99. As at 31 December 2011, the Target Group was with a total deficit of HK\$6,990 and the gearing ratio was undefined.

Cash flow information

During the period from 9 June 2011 to 31 December 2011, the Target Group recorded a net cash inflows of HK\$793,002, which was mainly comprised of the cash used in operations of HK\$7,028 due to legal and professional fee paid, and the HK\$800,000 cash inflow from financing activities of HK\$800,008 due to the proceeds from the loan from its ultimate shareholder of HK\$800,000.

Capital structure

No bank borrowings, currency or interest rate structures were found during the period.

Material acquisition and disposals of subsidiaries and associated companies and significant investment held

Save for the licenses and certificates in relation to the development and operation of the Subject Land, the Target Group did not have any material acquisition and disposals of subsidiaries and associated companies for the period from 9 June 2011 to 31 December 2011 and no significant investment was held by the Target Group as at 31 December 2011.

LETTER FROM THE BOARD

Future plans for material investment or capital assets

As at 31 December 2011, the Target Group had no future plans for material investment or capital assets save for the licenses and certificates in relation to the development and operation of the Subject Land.

Capital commitments

As at 31 December 2011, the Target Group did not have any capital commitments save for the HK\$800,000 loan from its ultimate shareholder.

Charge on assets

As at 31 December 2011, no assets of the Target Group was being pledged or charged.

Contingent liabilities

As at 31 December 2011, the Target Group did not have any contingent liabilities.

Exposure to fluctuations in exchange rates and related hedges

As at 31 December 2011, there were no borrowings denominated in foreign currency in the Target Group. The Target Group had not used any financial instruments for hedging against fluctuation in interest rate to reduce any currency risk for the year ended 31 December 2011.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is engaged in (i) media business; (ii) properties investment through jointly controlled entities; and (iii) the provision of high-end recreational and tourism services through the management of “Bayhood No. 9 Club”. “Bayhood No. 9 Club” is a membership-based luxury golf club near the city centre of Beijing and comprises an 18-hole championship golf course, an unique double-storey practice bays, the first PGA branded and managed golf academy in Asia, theme dining rooms serving Chinese and Western cuisine, spa facilities and retail shops. As disclosed in the annual report of the Group for the year ended 31 December 2011, the Group successfully expanded into the high-end recreational and tourism services sector after completing the acquisition of the “Bayhood No. 9 Club” operation in July 2011. Target customers of “Bayhood No. 9 Club” are those of high net worth individuals and corporations.

Upon Completion, the Enlarged Group will, through the Target Group, be engaged in the development and operation of the Subject Land as the extension of “Bayhood No. 9 Club”, where current and potential members of “Bayhood No. 9 Club” are considered to be the target customers for the project, which will also be branded as “Bayhood No. 9”. The Group believes that the Proposed Acquisition will create considerable synergies to it and help it to tap further into the high-end recreational and tourism services sector.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

Upon Completion, the Target Group will be treated as a subsidiary of the Company and will be accounted for in the consolidated financial statements of the Group.

Assets and liabilities

As stated in the annual report of the Company for the year ended 31 December 2011, the consolidated total assets and total liabilities of the Group as at 31 December 2011 were approximately HK\$2,033 million and approximately HK\$857 million respectively.

According to the unaudited pro forma financial information of the Enlarged Group as contained in Appendix III of this circular, the unaudited pro forma total assets and total liabilities of the Enlarged Group are approximately HK\$3,247 million and approximately HK\$1,749 million, respectively upon Completion, as calculated based on the applicable assumptions.

Gearing ratio

According to the annual report of the Company for the year ended 31 December 2011, the gearing ratio (calculated as total borrowings divided by total assets) of the Group as at 31 December 2011 was approximately 0%. Upon Completion, the gearing ratio of the Enlarged Group (calculated as total borrowings divided by total assets) as calculated based on the unaudited pro forma financial information of the Enlarged Group as contained in Appendix III of this circular is approximately 19.4%.

Earnings

According to the unaudited pro forma consolidated income statement of the Enlarged Group as set out in Appendix III to this circular, the loss of the Enlarged Group would increase by approximately HK\$112 million as a result of the Proposed Acquisition.

On this basis, and in light of the potential future prospects of Target Group, it is expected that consolidating the financial results of Target Group into the Group would have a favourable long term prospects on the Enlarged Group's earnings upon Completion.

LETTER FROM THE BOARD

FUND RAISING ACTIVITY OF THE COMPANY IN THE PAST 12 MONTHS

Set out below is the fund raising activity conducted by the Company in the past twelve months prior to the date of this circular:

Date of announcement	Event	Net Proceeds	Intended use of Proceeds	Actual use of Proceeds
19 December 2011	Placing of 550,000,000 Warrants	As at the Latest Practicable Date, 20,000,000 Warrants have been exercised into 20,000,000 new shares and the net proceeds arising from the placing of Warrants is HK\$4.25 million. Additional proceeds of HK\$53 million upon the full exercise of the subscription rights attaching to the outstanding Warrants	To be applied for the working capital and future development funds of the Company	Not yet utilized

Save as disclosed above, the Company has not conducted any other fund raising activity in the past 12 months prior to the date of this circular.

The Company does not contemplate any intention, negotiation, agreement, arrangement and understanding (concluded or otherwise) about equity fund raising to finance the business development of the Target Group. The Group is of the view that it is not necessary to consider equity fund raising to finance the development of the first phase of the Subject Land due to the following factors:

- (i) The Group has approximately HK\$201 million cash on hand as at 31 December 2011;
- (ii) It is expected that approximately HK\$100 million is to be realised in year 2012 through return of investments in movies and TV dramas in the past. Approximately HK\$73 million of which would be generated from guaranteed-return contracts pursuant to which the timing and amount of returns have been pre-fixed; and
- (iii) Other than internal working capital, the above construction has been partly financed by the subcontractor, which entered into a construction agreement with the PRC Company on 11 April 2012. Pursuant to such agreement, it is agreed that the construction cost of the first phase will only be paid within 18 months upon completion of the verification of the quality of the construction of the first phase.

LETTER FROM THE BOARD

The Group is also of the view that it is not necessary to consider equity fund raising to finance the development of the second phase of the Subject Land due to the following factors:

- (i) Upon completion of the first phase, approximately 32,000 square meters will be available for leasing. By referencing to the average room rate and occupancy rate for high-end hotels in Beijing, it was assumed that the proposed project could charge at RMB55 per square meter per day with an annual occupancy rate of 60%, which will generate approximately RMB385 million rental income per annum to the Group; and
- (ii) In accordance with the above subcontracting agreement dated 11 April 2012, it is agreed that the construction cost of the second phase will only be paid within 18 months upon completion of the verification of the quality of the construction of the second phase.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios under the Listing Rules exceed 100%, the Proposed Acquisition constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules.

In addition, the Vendor is a wholly-owned company of Mr. Yuen, who is an executive Director and a substantial shareholder of the Company. Accordingly, the Vendor is a connected person of the Company by way of being an associate of Mr. Yuen and the Proposed Acquisition also constitutes a connected transaction pursuant to Rule 14A.13(1)(a) of the Listing Rules. The Proposed Acquisition and the transactions contemplated under the Acquisition Agreement are therefore subject to approval by the Independent Shareholders at the EGM by way of poll. Other than Mr. Yuen and his associates, who are required to abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder, no other Shareholders are required to abstain from voting in respect of the resolutions relating to the Acquisition Agreement, and the transactions contemplated thereunder at the EGM.

An Independent Board Committee has been formed to advise the Independent Shareholders with respect to the relevant resolutions on the transactions contemplated under the Acquisition Agreement proposed to be passed at the EGM, and the Independent Financial Adviser has been appointed to make recommendations to the Independent Board Committee and the Independent Shareholders regarding the same.

PRINCIPAL BUSINESS OF THE GROUP

The Group is engaged in (i) media business; (ii) properties investment through jointly controlled entities; and (iii) the provision of high-end recreational and tourism services through the management of "Bayhood No. 9 Club".

EGM

A notice convening the EGM to be held on Thursday, 23 August 2012 at Falcon Room I, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong at 10:30 a.m. is set out on pages 217 to 219 of this circular. Whether or not you intend to attend the EGM, you are requested to

LETTER FROM THE BOARD

complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Tricor Tengis Ltd. at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the appointed time for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and any adjournment thereof (as the case may be) should you so wish.

The EGM will be held to consider, and if thought fit, pass the requisite resolution(s) to approve the Acquisition Agreement, the issue of the Convertible Note, the proposal for the grant of Specific Mandate to satisfy the allotment and issue of the Conversion Shares following the exercise of the Conversion Rights pursuant to the Convertible Note and other transactions contemplated under the Acquisition Agreement.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 57 to 58 of this circular which contains its recommendation to the Independent Shareholders and the letter from the Independent Financial Adviser on pages 59 to 126 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the Proposed Acquisition as well as the principal factors and reasons taken into consideration in arriving at its advice.

Having considered the reasons set out herein, the Directors are of the opinion that the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable and that the Proposed Acquisition is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions as set out in the notice of EGM to approve, among other things, the transactions contemplated under the Acquisition Agreement and grant of specific mandate to issue Conversion Shares at the EGM. You are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser set out in this circular before deciding how to vote on the resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By the Order of the Board
Media China Corporation Limited
Mr. YUEN Hoi Po
Chairman

Hong Kong, 8 August 2012

mediachina

C O R P O R A T I O N L I M I T E D

華 億 傳 媒 有 限 公 司

MEDIA CHINA CORPORATION LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

8 August 2012

To the Independent Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF
YUAN SHUN INVESTMENTS LIMITED
INVOLVING ISSUE OF PROMISSORY NOTE
AND CONVERTIBLE NOTE
AND
(2) PROPOSED GRANT OF SPECIFIC MANDATE
TO ISSUE NEW SHARES**

We refer to the circular of the Company to the Shareholders dated 8 August 2012 (the “Circular”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings given to them in the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Acquisition Agreement, the transactions contemplated therein and the Proposed Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

Your attention is also drawn to the letter from the Board as set out on pages 7 to 56 of the Circular and the additional information set out in the appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered, among other matters, the factors and reasons considered by the Independent Financial Adviser, we consider that the terms of the Acquisition Agreement, the transactions contemplated therein and the Proposed Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the transactions contemplated under the Acquisition Agreement to be proposed at the EGM.

Yours faithfully,

For and on behalf of

The Independent Board Committee

Prof. WEI Xin

*Independent
non-executive
Director*

Dr. WONG Yau Kar,

David, JP
*Independent
non-executive
Director*

Mr. YUEN Kin

*Independent
non-executive
Director*

Mr. CHU Yuguo

*Independent
non-executive
Director*

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from Messis Capital Limited, the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders for inclusion into this circular.



大有融資有限公司
MESSIS CAPITAL LIMITED

8 August 2012

*To: The Independent Board Committee and the Independent Shareholders of
Media China Corporation Limited*

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE NEW SHARES

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders in relation to the Proposed Acquisition, Specific Mandate and the respective transactions contemplated thereunder, and details of which are set out in the letter from the board (the “Board Letter”) contained in the circular dated 8 August 2012 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Capitalized terms used in this letter have the same meanings as defined in the Circular, unless the context otherwise requires.

The Proposed Acquisition

On 25 May 2012, the Purchaser, a wholly owned subsidiary of the Company, and the Vendor entered into the Acquisition Agreement pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share for the consideration of HK\$900 million. The Consideration will be satisfied as to HK\$50 million by way of cash; as to HK\$150 million by way of issue of Promissory Note; and HK\$700 million by way of issue of the Convertible Note of principal amount of RMB569 million to the Vendor on Completion. The initial Conversion Price of the Convertible Note is RMB0.08 (equivalent to approximately HK\$0.10). The Sale Shares represents the entire issued share capital of the Target Company. Upon Completion, the Target Company will become a wholly owned subsidiary of the Purchaser. The principal asset of the Target Company is the entire issued share capital of the Hong Kong Company and the sole asset of the Hong Kong Company is the interest in the entire share capital of the PRC Company which entered into the Second Cooperation Agreement with Beijing Chao Lai in relation to the development and operation rights of the 580 acres of the Subject Land located in Beijing, the PRC.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

Specific Mandate

Under the Acquisition Agreement, the Purchaser will procure the Company to issue the Convertible Note to the Vendor as part payment of the Consideration on Completion. The Conversion Shares to be issued following the exercise of the Conversion Rights shall rank *pari passu* in all respects with the Shares then in issue on the date of allotment and issue thereof. The Company will seek the grant of Specific Mandate from the Shareholders at the EGM to satisfy the allotment and issue of the Conversion Shares upon the exercise of the Conversion Rights pursuant to the Convertible Note.

Since (i) the Vendor is wholly-owned by Mr. Yuen, an executive Director and the chairman of the Board of Directors and (ii) Mr. Yuen indirectly holds approximately 17.58% of the issued shares in the Company as at the Latest Practicable Date, both the Vendor and Mr. Yuen are a connected person of the Company and the Proposed Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Proposed Acquisition are more than 100%, the Proposed Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Accordingly, the Proposed Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. Mr. Yuen and his associates will be required to abstain from voting on the resolutions approving the Proposed Acquisition, Specific Mandate and the respective transactions contemplated thereunder at the EGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Professor Wei Xin, Dr. Wong Yau Kar David JP, Mr. Yuen Kin and Mr. Chu Yuguo, has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Proposed Acquisition, Specific Mandate and the respective transactions contemplated thereunder.

We, Messis Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Proposed Acquisition (including the issue of the Promissory Note and Convertible Note), Specific Mandate and the respective transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Company and on normal commercial terms and whether the terms of the Acquisition Agreement are fair and reasonable in so far as the interests of the Company and the Independent Shareholders as a whole are concerned; (ii) whether or not the respective terms of the Acquisition Agreement and the respective transactions contemplated thereunder are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the respective resolutions to approve the Proposed Acquisition, Specific Mandate and the respective transactions contemplated thereunder at the EGM.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of the Listing Rules.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things, (i) the announcement of the Company dated 25 May 2012; (ii) the Circular; (iii) the Acquisition Agreement; (iv) the valuation report dated 8 August 2012 prepared by American Appraisal China Limited, the independent valuer to the Group commissioned by the Company, on the proposed hotel and conferencing facilities development project related to the development and operation rights of the Subject Land injected on the Target Company and Target Group contained in Appendix IV of the Circular; (v) the PRC legal opinion prepared by Guantao Law Firm, an independent PRC legal adviser to the Group; (vi) the annual reports of the Company for the years ended 31 December 2010 (the “AR2010”) and 2011 (the “AR2011”); and (vii) the report on unaudited pro forma financial information of the Enlarged Group as set out in Appendix III of the Circular; and (viii) letter/report in relation to discounted future estimated cash flows as set out in Appendix V of the Circular. At the same time, we have made reference to the accountant’s report of the Target Group as set out in Appendix II of the Circular.

We have assumed that all information, opinions and representations contained or referred to in the Circular are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations made by the Directors and the management of the Company that having made all reasonable enquiries and careful decisions, and to the best of their information, knowledge and belief, there is no other fact or representation or the omission of which would make any statement contained in the Circular, including this letter, misleading. In addition, we have also assumed that all information, statements and representations made or referred to in the Circular, which have been provided to us by the Company, and for which it is wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so as at the date of despatch of the Circular.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Acquisition to provide us with a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company; nor have we conducted any independent in-depth investigation into the business and affairs of the Company and its respective associates. We also have not considered the taxation implication on the Group or the Shareholders as a result of the transaction herein.

In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be constructed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In formulating our opinion in respect of the Proposed Acquisition and the Specific Mandate to the Shareholders, we have considered the following principal factors and reasons:

1. Background of the Proposed Acquisition

1.1 Information of the Group

The Group is engaged in (i) media business; (ii) properties investment through jointly controlled entities; and (iii) the provision of high-end recreational and tourism services through the management of “Bayhood No. 9 Club”.

The media business

The Group’s media business mainly comprised the Travel Channel operation, the exclusive advertising agency business at Beijing Railway Station and Beijing West Railway Station which started in 2011, and the content production operation. The media segment recorded a loss of HK\$14.3 million in year 2011 while in year 2010 there was a profit of HK\$5.4 million. This is mainly attributed to a provision for impairment on certain programs and film rights of HK\$11.6 million, and the operating losses arising from the exclusive advertising agency business at Beijing Railway Station and Beijing West Railway Station.

The properties investment business

In September 2010, the Group acquired the office units and retail facilities at Shenzhen Tian An International Building with gross floor area of approximately 31,700 square meters and a 50% interest in the management company of the building for a total cash consideration of HK\$280 million. Shenzhen Tian An International Building is located in Renmin South Road, Luohu District, Shenzhen and most of the said office units and retail facilities have been leased to third parties. During year 2011, a revaluation gain of approximately HK\$31.2 million was derived from the investment property. Revenue from properties investment segment for the year 2011 was approximately HK\$20.7 million and profit from the segment was approximately HK\$41.9 million.

High-end recreational and tourism services

The Group has completed the acquisition of the “Bayhood No. 9 Club” operation in July 2011. “Bayhood No. 9 Club” is a membership-based luxury club located near the city center of Beijing, comprising comprehensive facilities including a 7,260 yard, 18-hole championship golf course; double-storied practice bays equipped with private VIP rooms; a PGA-branded and managed golf academy; professional retail shops; theme dining rooms serving Chinese and Western cuisine; and spa facilities and coffee shops. Revenue of “Bayhood No. 9 Club” mainly derived from sale of membership, annual

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

member fees, green fees, caddy and buggy fees, practice bay and VIP room rental fees, golf academy tuition fees, sale of food and beverages from the theme dining rooms, and other services fees arising from spa facilities, retail shops, coffee shops.

As the accumulated number of members has increased gradually each year while many of the operating costs and expenses, such as depreciation, rental fee payable, staff costs and maintenance costs were relatively stable, gross profit margin and net profit margin of “Bayhood No. 9 Club” increased steadily. In 2011, its gross profit margin advanced 3.5 percentage points year-on-year to 51.5%, while net profit margin improved 3.3 percentage points year-on-year to 27.2%. The management of the Group believes that this project enables the Group to create better returns for shareholders by taking advantage of the thriving high-end consumption sector.

Financial results for the two years ended 31 December 2011

The following sets out the financial information of the Group for the two financial years ended 31 December 2010 and 2011, which is extracted from the AR2011.

Illustration 1a: Summary of profit and loss for the two years ended 31 December 2011

	For the year ended 31 December	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>
Turnover:		
— Media	39,920	166,127
— Properties investment	20,690	5,181
— Recreational and tourism services	<u>64,614</u>	<u>—</u>
	125,224	171,308
Cost of sales	(94,226)	(116,944)
Gross profit	30,998	54,364
Loss before taxation	(5,937)	(478,854)
Loss for the year	(17,627)	(483,667)
Attributable to:		
Equity holders of the Company	(17,779)	(483,463)
Minority interests	152	(204)

As shown in the above table, the recreational and tourism services segment contributed for over half of the Group's revenue in year 2011 amounted to approximately HK\$64.6 million. Also, the Group recorded a loss attributable to equity holders of the Company of approximately HK\$17.7 million for the year ended 31

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

December 2011, representing a decrease of approximately 96% over the year ended 31 December 2010. Such decrease of loss is mainly due to no provision for impairment on goodwill has been made for the year.

Set out below is the financial performance by business segments of the Company for each of the two years ended 31 December 2011:

Illustration 1b: Segment results for the two years ended 31 December 2011

	For the year ended 31 December	
	Segment revenue	Segment results
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
2010		
Media	166,127	5,353
Properties investment	5,181	1,974
Recreational & tourism services	<u>—</u>	<u>—</u>
Total	<u><u>171,308</u></u>	<u><u>7,327</u></u>
2011		
Media	39,920	(14,313)
Properties investment	20,690	41,948
Recreational & tourism services	<u>64,614</u>	<u>11,876</u>
Total	<u><u>125,224</u></u>	<u><u>39,511</u></u>

As stated in the table above, for the year ended 31 December 2011, the media segment, comprising advertising and content production, generated a loss of approximately HK\$14.3 million, as compared to the segment profit of approximately HK\$5.4 million for the year ended 31 December 2010. According to AR2010, a non-cash goodwill impairment loss of HK\$470.5 million was recorded in 2010 as a result of revised future cash projection for its advertising and media business due to fierce competition in the media market in the PRC, ever increasing content production cost, and the upward adjustment on the discount rate applicable. As set out in the AR2010, while proceeding with the Company's media business, it also stepped up efforts to expand into the recreational and tourism services business to diversity its business portfolio.

1.2 Background and information on the Target Group

(a) *Background of the Subject Land*

As set out in the section headed “Information of the Target Group” of the Board Letter, the Subject Land locates at Beijing Chao Lai Football Activities Centre (北京朝來足球活動中心), Chaoyang District (朝陽區), Beijing, with area of approximately 580 acres (approximately 387,000 square meters). The Subject Land is bounded by the north side of the Fourth Ring Road (北四環路), the south side of the Fifth Ring Road (北京五環路), bounded by the west side of Chengde Expressway (京承高速公路), the east side of Bei Hu Qu Lu (北湖渠路), and the north side of Lize Xi Lu (利澤西路). It is adjacent to “Bayhood No. 9 Club” operated by the Group, a membership-based luxury club which comprises of hotel facilities, theme dining rooms serving Chinese and Western cuisine, spa facilities, retail shops, and 18 holes championship golf course.

Illustration 2a: Location of Chao Yang District, Beijing, the PRC

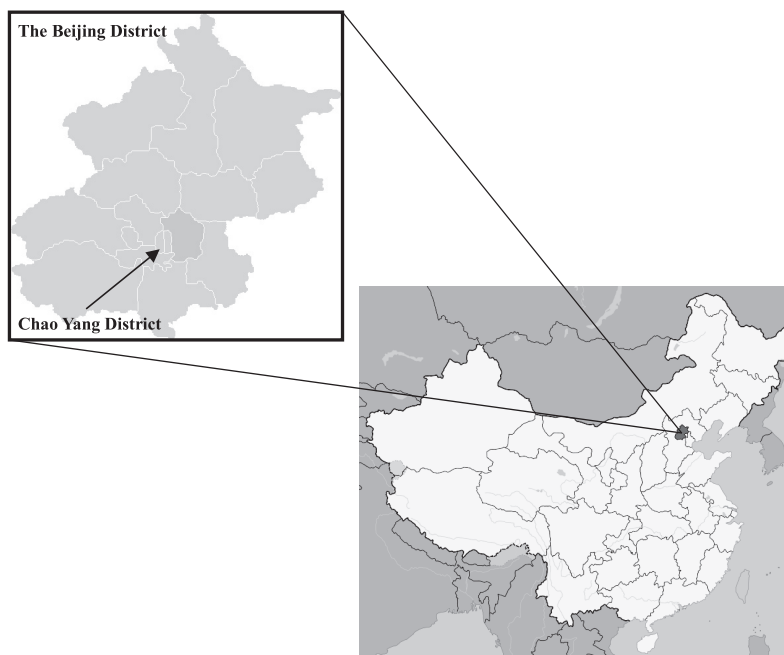
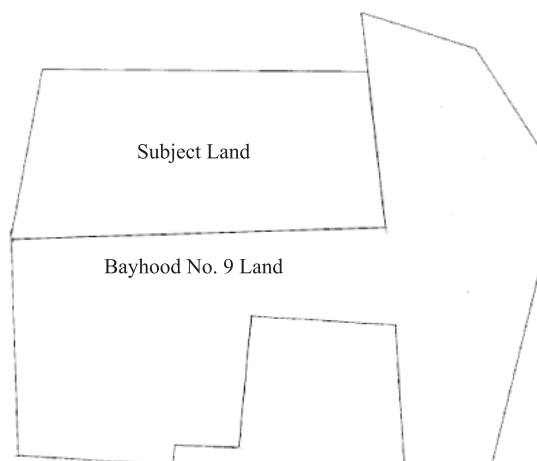


Illustration 2b: Location of the Subject Land



Illustration 2c: geographical location of the Subject Land and Bayhood No. 9 Land



As stated in the Board Letter, the Subject Land is a piece of collective land owned by the Villagers' Committee, which is made up of representatives of local villagers, in accordance with the record of the competent local land management department of the PRC government. No Collective Land Ownership Certificate has been granted by the PRC government to the villagers. According to PRC laws, the Villagers' Committee has the right to operate the Subject Land on behalf of its owners. In year 2008, Beijing Chao Lai, a collective enterprise, (i) has been granted the development and operation rights of the Subject Land by the Villagers' Committee; (ii) has been granted the rights to pay for the compensation amount to change the nature of the Subject Land and obtain its land use right; and (iii) has the right to further grant the development and operation rights of the Subject Land to other parties. The development rights of the Subject Land are the construction rights of the Subject Land and the operation rights of the Subject Land are the rights to manage the properties to be developed on the Subject

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Land. On 31 March 2012, Beijing Chao Lai has obtained the relevant Rural Construction Planning Permit (鄉村建設規劃許可證) issued by the Beijing Municipal Commission of Urban Planning (北京市規劃委員會) for the development of a total gross area of approximately 80,404 square meters could be built on the Subject Land. The Target Group plans to make use of the remaining area of the land as walkways, gardening, and green landscapes, making the whole area as a low-density green construction. As at the Latest Practicable Date, the Target Group does not plan to apply for the extension on construction areas on the Subject Land. Beijing Municipal Commission of Urban Planning also imposed that the establishments on the Subject Land cannot be higher than nine meters and shall also fulfill other local requirements for urban planning, transportation, virescence and civil defense.

The First Cooperation Agreement, the Second Cooperation Agreement and the land use right

On 16 May 2008, Beijing Chao Lai entered into the First Cooperation Agreement with Zhou Hai Tong Da, which is beneficially wholly-owned by Mr. Yuen. Zhou Hai Tong Da was founded in year 2007 and was acquired by Mr. Yuen in year 2008. Zhou Hai Tong Da is principally engaged in the trading of hotel and catering utensils in the PRC. Pursuant to the First Cooperation Agreement, Beijing Chao Lai has granted the development and operation rights of the Subject Land to Zhou Hai Tong Da up to 31 May 2048 and Zhou Hai Tong Da guaranteed to pay Beijing Chao Lai an amount of RMB6 million annually from 1 June 2008 to 31 May 2048 with an increment of 10% every 5 years (the “Land Use Right Payment”).

In the event that the PRC government allowed Beijing Chao Lai to change the nature of the Subject Land from collectively-owned land to state-owned land, Zhou Hai Tong Da agreed to pay for the compensation amount on behalf of Beijing Chao Lai to the relevant PRC government departments. Upon the payment of the compensation amount, Beijing Chao Lai would obtain the land use right of the Subject Land. Beijing Chao Lai agreed to become a wholly-owned subsidiary of Zhou Hai Tong Da in the event that (i) Zhou Hai Tong Da would pay for the compensation amount on behalf of Beijing Chao Lai to change the nature of the Subject Land; and (ii) Beijing Chao Lai had successfully changed the nature of the Subject Land and obtained the land use right of the Subject Land. The Company has no intention to acquire the land use right of the Subject Land in the event that Beijing Chao Lai would have successfully obtained such land use right upon payment of compensation amount by Zhou Hai Tong Da and Beijing Chao Lai have become the subsidiary of Zhou Hai Tong Da.

Based on the latest circular regarding the pricing standard on state-owned land use right disposal issued by the Beijing Municipal Bureau of Land and Resources in year 2002, the estimated compensation amount for the Subject Land (assuming no change in the construction density) is approximately RMB320 million. However, the amount shall still be subject to case by case negotiation with the local government and shall also reflect the changes in the overall

economic environment compared to that of year 2002. In the event that the final compensation amount of the Subject Land will be higher than RMB320 million, the Company would not be required to pay Mr. Yuen for the difference. There is no expected date of payment for the compensation amount as the application process of changing the nature of the Subject Land has not been commenced. As at the Latest Practicable Date, the PRC government has not agreed to change the nature of the Subject Land.

On 30 January 2012, the PRC Company, being an indirect wholly-owned subsidiary of the Target Company, has entered into the Second Cooperation Agreement with Beijing Chao Lai with the consents from Zhou Hai Tong Da and Beijing Chao Lai itself. Pursuant to the Second Cooperation Agreement, the development and operation rights of the Subject Land up to 31 May 2048 has been effectively transferred to the PRC Company. As Mr. Yuen is the ultimate sole shareholder of both Zhou Hai Tong Da and the PRC Company, terms of the Second Cooperation Agreement are in line with that of the First Cooperation Agreement, save for the terms relating to the payment of the compensation amount for the Subject Land to the relevant PRC government departments which remains to be the obligations of Zhou Hai Tong Da. Beijing Chao Lai and Zhou Hai Tong Da have also issued the Beijing Chao Lai Consent Letter and Zhou Hai Tong Da Consent Letter, respectively, consenting to the execution of the Second Cooperation Agreement.

Material terms of the Second Cooperation Agreement

Parties : The PRC Company
Beijing Chao Lai

Period : 30 January 2012 to 31 May 2048

Material terms:

- The PRC Company has been granted the development and operation rights of the Subject Land and will be in charge of the daily operation and management of the Subject Land up to 31 May 2048;
- The PRC Company plans to build premier low-density double storied deluxe hotel villas and conferencing facilities equipped with basement on the Subject Land with a total gross area of approximately 80,404 square meters. The developments on the Subject Land could not be sold to external parties;
- The PRC Company guarantees to contribute an annual guaranteed profit of RMB6 million from 30 January 2012 to 31 May 2048 as fees for the development and operation rights of the Subject Land to Beijing Chao Lai. Such annual fee or Land Use Right Payment is subject to an increase of 10% every 5 years starting from 1 June 2013;

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- Beijing Chao Lai will not be entitled to any profit arising from the development and operation rights of the Subject Land save for the above annual distributions from the PRC Company;
- The PRC Company guarantees the fair value of all the developments on the Subject Land at the expiry of the Second Cooperation Agreement will not be lower than RMB65 million;
- The Second Cooperation Agreement can only be terminated if both parties agree to the termination;
- The PRC Company will have first right of renewal to renew the Second Cooperation Agreement upon its expiry; and
- The PRC Company has also agreed to reimburse all the expenses incurred by Beijing Chao Lai in relation to obtaining the relevant licenses or certificates for the development and operation of the Subject land. Up to the Latest Practicable Date, such expenses to be reimbursed by the PRC Company amounted to approximately RMB1.5 million. The PRC Company will not reimburse any cost incurred by Mr. Yuen. As at the Latest Practicable Date, no material reimbursement to be incurred in the future is expected by the Company.

In view of the above, the development and operation rights of the Subject Land up to 31 May 2048 will be held by the Target Group (indirectly through the PRC Company) upon Completion. Beijing Chao Lai could not purchase the land use right or ownership of the Subject Land from the Villagers' Committee directly according to existing PRC laws, but only could apply and pay for the compensation amount in order to acquire the land use right through the land acquisition system of the PRC government. However, such administrative procedure would take a prolonged period to obtain the approval from the relevant government departments in the PRC. Should Beijing Chao Lai obtain the land use right of the Subject Land after the payment of the compensation amount by Zhou Hai Tong Da and Beijing Chao Lai becoming a wholly-owned subsidiary of Zhou Hai Tong Da, the Group's development and operation rights of the Subject Land will not be affected in any circumstances as the land use right of the Subject Land would still be indirectly owned by Beijing Chao Lai.

PRC legal opinion on the Subject Land

In accordance with the PRC legal opinion dated by 24 May 2012 issued by Guantao Law Firm, the PRC legal adviser of the Company confirmed the followings:

- (i) the villagers are the owner of the Subject Land;
- (ii) the Villagers' Committee possesses the proper ownership title of the Subject Land;

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- (iii) the Villagers' Committee has the right to grant the development and operation rights of the Subject Land to Beijing Chao Lai on behalf of the villagers;
- (iv) Beijing Chao Lai has the right to further grant the development and operation rights of the Subject Land to the PRC Company; and
- (v) Pursuant to the Second Cooperation Agreement entered into between Beijing Chao Lai and the PRC Company, the development rights and operation rights of the Subject Land granted to the PRC Company would expire by 31 May 2048.

The Board is of the view that the changing of the nature of the Subject Land by the PRC government is not crucial to the Target Group due to the following reasons:

- (i) the Target Group has already obtained the development and operating rights of the Subject Land from Beijing Chao Lai for a period of 36 years. The business plan of the Group relating to the development of the Subject Land will not be affected irrespective of whether the land use right of the Subject Land is owned by Beijing Chao Lai or the development and operation rights of the Subject Land are owned by the Group through the PRC Company;
- (ii) the Target Group intends to develop the Subject Land into low density, double storey deluxe hotel villas, which will be leased out on short and medium terms and not to be sold as the Target Group would not be able to obtain the ownership certificate for villas to be constructed;
- (iii) should Beijing Chao Lai obtain the land use right of the Subject Land after the payment of the compensation amount by Zhou Hai Tong Da and Beijing Chao Lai becoming a subsidiary of Zhou Hai Tong Da, the Target Group's development and operation rights of the Subject Land would not be affected in any circumstances as the land use right of the Subject Land would still be owned by Beijing Chao Lai; and
- (iv) the Target Group does not have to bear the estimated compensation amount of RMB320 million of the Subject Land which would be the responsibility of Zhou Hai Tong Da. As such, the cashflow of the Target Group will not be reduced by the payment of the compensation amount and the Target Group could concentrate on the development of the Subject Land.

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In assessing the risk of the development and operation rights of Subject Land, including the estimated compensation amount of RMB320 million as abovementioned, we have (i) enquired the PRC legal adviser, Guantao Law Firm, who provided PRC legal advisory and issued the PRC legal opinion to the Company; (ii) reviewed the terms of engagement of the PRC legal adviser; (iii) reviewed the PRC legal opinion dated 24 May 2012 and any subsequent opinion issued by the PRC legal adviser; and (iv) the expertise of the PRC legal adviser.

As disclosed in the Board Letter, Zhou Hai Tong Da would have the ability to settle the compensation amount of RMB320 million based on the Mr. Yuen's representation that he has sufficient resources and personal wealth to provide the necessary financial support to Zhou Hai Tong Da for the settlement of the compensation amount. Upon our enquiry, we were advised by the Company that Mr. Yuen fully supports Zhou Hai Tong Da for the settlement of the compensation amount. Having considered that (i) the PRC legal opinion on the Subject Land as abovementioned; (ii) Mr. Yuen's full support to Zhou Hai Tong Da for settlement of the compensation amount; (iii) Mr. Yuen's financial resources and personal wealth available for settlement of compensation amount; and (iv) the Group has already obtained the development and operating rights of the Subject Land from Beijing Chao Lai and the Proposed Project will not be affected whether the land use right of the Subject Land is owned by Beijing Chao Lai or the development and operation rights of the Subject Land are owned by the Group through the PRC Company as abovementioned, we are of the view that there will be no substantial risk on the development and operation rights of Subject Land in relation to settlement of compensation amount.

In view of the above reasons, the Board is in the opinion that the absence of having the condition relating to the change of the nature of the Subject Land as a condition precedent of the Acquisition Agreement is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(b) *Principal business, business plan, and financial information of the Target Group*

Principal business of the Target Group

The Target Group comprises the Target Company, the Hong Kong Company and the PRC Company. The Target Company is an investment holding company and was established on 9 June 2011 in BVI with Mr. Yuen being its ultimate beneficial owner. The Target Group has obtained all relevant licenses or certificates in relation to the development and operation of the Subject Land through the cooperation with Beijing Chao Lai. Upon Completion, the sole asset of the Target Group will be development and operation rights of the Subject Land under the Second Cooperation Agreement entered into between Beijing Chao Lai and the PRC Company.

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Business Plan of the Target Group

As disclosed in the sub-section headed “Business Plan of the Target Group” on Board Letter, the Company intends to develop the Subject Land into low density, double storey deluxe hotel villas equipped with basement, luxurious amenities and gardening supplemented by conferencing facilities, swimming pools, pavilions, covered walkways and statues. The Subject Land is adjacent to “Bayhood No. 9 Club”, allowing villa residents to enjoy an unobstructed view of green landscape. (the “Proposed Project”).

Under the Proposed Project, the total number of hotel villas to be constructed will be around 80 to 100. The larger villas, each of a gross floor area ranging from approximately 700 square metres to 1,500 square metres, will mainly be leased out on medium to long terms. The small villas, each of a gross floor area ranging from approximately 150 square metres to 300 square metres, will mainly be leased out on short to medium terms. Individualized private service teams will be available to customers for tailored services including housekeeping service, vehicle management and healthcare advisory service.

The design of the hotel villas on the Subject Land will introduce local touches and creates welcoming spaces that reflect “East-meets-West” heritage. All materials, from hand-knitted rugs to original artworks, will be carefully selected to ensure comfort, quality and conformity. Such design idea allows the hotel villas to provide a unique approach to the customers. Whether the customers and members are using the hotel villas for a short term rental or for an extended stay, they will all be able to experience “Bayhood No. 9 Club Difference”. Short term plan of the Proposed Project includes construction of 30–35 villas out of 80–100 villas of the whole project for the first phase of villas, sales and marketing, and strengthening the management of the villas. Medium to long term plan of the Proposed Project mainly includes the construction of 50–65 villas out of a total of 80–100 villas of whole project for the second phase of villas with target completion date in the third quarter of 2014. Target customers of the Proposed Project include (i) the existing and future members of “Bayhood No. 9 Club” who seeks for accommodation and/or resort facilities nearby; (ii) Chinese and international enterprises; and (iii) wealthy and high-end people.

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The development of the Subject Land will be in two phases: (1) the first phase, representing around 40% of the whole construction project, will commence in the third quarter of 2012 and is expected to be completed in the third quarter of 2013, and (2) the second phase, representing the remaining 60% of the construction project, will commence in the third quarter of 2013 and is expected to be completed in the third quarter of 2014. The following is the estimated Capital Commitment of the Proposed Project:

Illustration 3a: Capital commitment of the Proposed Project

	RMB (in million)	RMB (in million)
First Phase		
— Civil engineering construction	88	
— Interior decoration and furniture	152	
— Other (ventilation, air-conditioning, water & sewage, electricity, fire prevention)	80	
— Gardening	<u>15</u>	
		335
Second Phase		
— Civil engineering construction	132	
— Interior decoration and furniture	228	
— Other (ventilation, air-conditioning, water & sewage, electricity, fire prevention)	120	
— Gardening	<u>23</u>	
		<u>503</u>
Total capital commitment		<u><u>838</u></u>

On 11 April 2012, the Target Group has entered into a subcontracting agreement with a PRC contractor, an independent third party to the Vendor, the Company and their respective connected persons. As disclosed in the Board Letter, the estimated capital commitment of the development by the PRC contractor for the first phase and the second phase is in line with the comparable market construction costs as stated in the Valuation Report in Appendix IV. The subcontracting agreement has included the terms of payment based on construction progress until a specified maximum percentage of the total contract sum is paid. As the construction work is outsourced to PRC contractor, the construction contract the Target Group entered into typically contain warranties with respect to quality and timely completion of the construction on the Subject Land. The Target Group will formulate its internal quality assurance standards and systems to

regulate all major processes and procedures in the construction of the Subject Land. Pursuant to such subcontracting agreement, (i) the construction cost of the first phase will only be paid within 18 months upon completion of the verification of the quality of the construction of the first phase; and (ii) the construction cost of the second phase will only be paid within 18 months upon completion of the verification of the quality of the construction of the second phase.

As disclosed in the Board Letter, upon Completion of the first phase, approximately 32,000 square meters (representing 40% of the total area of approximately 80,000 square meters) will be available for leasing. By referencing to the average room rate and occupancy rate for high-end hotels in Beijing, the Company assumes that the proposed project could charge at RMB55 per square meter per day with an annual occupancy rate of 60% and an increase of room rental of 5% per annum, which will generate approximately RMB385 million rental incomes per annum to the Group.

1. According to the feasibility studies prepared by the management of the Group in 2011, in which the market of high-end and villas services in Beijing have been reviewed, for 5-star in Beijing, the charging rate is between RMB1,600 to RMB8,200 per day and the occupancy rate is approximately 60–80%. Considered the room size of each hotel and club house, the average room rate is approximately RMB55 per square meter which is in line with the market in general.
2. According to *IMF China Economic Outlook published* by International Monetary Fund on February 2012, (i) the average inflation is estimated to be 5.4% (2011), 3.3% (2012), and 3.0% (2013), and real Gross Domestic Product (GDP) growth was approximately 9.2% (2011), 8.2% (2012) and 8.8% (2013). Based on annual data released by STR Global, an institutional researcher focusing the hotel industry, the change of revenue per available room (RevPAR) in Beijing was –5.77% (2008), –20.5% (2009), 30.0% (2010), and 20.1% (2011). The RevPAR was affected by the financial crisis and the post Olympic game effect in 2009. STR Global forecasted a 5.0% to 7.0% RevPAR growth in 2012. Having considered the expected inflation and real GDP growth, as well as the historical RevPAR growth, we are of the view that the 5% rental growth is likely to be achievable.

With consideration that (1) according to the data obtained from Beijing Statistics Information Net www.bjstats.gov.cn (北京統計信息網), a database operated by Beijing Municipal Bureau of Statistics (北京市統計局), the average occupancy rates of starred hotel in Chao Yang District and Beijing Municipal in 2010 were 62% and 56%, respectively; (2) as stated in the valuation report set out in Appendix IV of this Circular, the average room rate per day per square meter charged by luxury hotels in Beijing Municipal ranged from RMB35 to RMB105; (3) the 5% room rental rate increase per year by referencing the expected inflation rate in China and consumer price inflation as stated in the Valuation Report; and

(4) the absence of possible income generated from provision of catering services in the Proposed Project, we are of the view that there is reasonable basis that the Proposed Project will be able to generate an annual rental income of approximately RMB385 million to the Group upon completion of the first phase.

According to the management of the Group, upon Completion of the second phase, a total of approximately 80,000 square meters will be available for leasing. By referencing to the average room rate and occupancy rate for high-end hotels in Beijing and room rental growth rate, it will generate approximately RMB964 million rental incomes per annum to the Group, upon completion of the second phase.

Management experience of the Group and the Target Group

Mr. Yuen Hoi Po

Mr. Yuen, aged 48, has been appointed as the chairman and executive Directors in August 2010. Mr. Yuen is also a shareholder and a director of Ming Bang Limited which is a substantial shareholder of the Company pursuant to Part XV of the Securities and Futures Ordinance. Mr. Yuen currently serves as a member of the standing committee of Beijing Youth Federation. Mr. Yuen has acquired extensive experiences in the commercial sector including trading, property development and management, tourism and services since 1990.

In 2005, Mr. Yuen was appointed as senior vice president of Beida Jade Bird Group, mainly responsible the sectors of cultural media and real estate, including the following property development and management projects: (1) Forest Hill, being located at Chaoyang Park, Beijing and established in 2005, consisting of 155 luxurious detached villas, each of which has a basement, a private garden and a garage, and (2) Beijing Richmond Park, being located at the Chaoyang District, Beijing and completed in 2006, contained 306 apartments with club house facilities.

Mr. Yuen was the project in-charge of the above and was responsible for, including but not limited to, the concept formulation and customer targeting, the selection of design plan and construction material, the co-ordination of the construction team, and the quality control.

Mr. Christony Lau (“Mr. Lau”)

Mr. Lau, aged 54, is the Director of Quality Control and Training of “Bayhood No. 9 Club”. Mr. Lau has over 20 years experience in quality control, training, and human resources management of 5-star hotels and service apartments, luxury resorts, and clubhouses in the PRC, such as Beijing Pangu Seven Star Hotel, Hangzhou Fuchun Resort and Apartments, Shanghai Four Seasons Hotels and Resorts. Mr. Lau will establish the training program for the

human resources of the Target Group. Mr. Lau holds a Diploma in Hotel Management from the Switzerland Les Roches International School of Hotel Management.

Ms Ye Yi Chen Sammi (“Ms Ye”)

Ms Ye, aged 33, the Director of Planning and the Target Group. Ms Ye has accumulated over 10 years of experience in marketing, project planning and management. Ms Ye has been responsible for the concept formulation, customer targeting, strategic planning, and government relationship coordination for the Proposed Project. She is also responsible for the co-ordination of the construction plan of the Subject Land and the marketing plan of the hotel villas upon completion of the construction plans to the members of “Bayhood No. 9 Club”. Before joining the Target Group in 2010, Ms Ye has been in-charge of the marketing and sales and leasing of a property development in Beijing. Ms Ye holds a Bachelor of Science Degree in City Planning from the Beijing University.

As such, we are of the view that the management abovementioned has posed sufficient experience in hotel management of the Proposed Project.

Contribution of Mr. Yuen to the proposed development on the Subject Land

Mr. Yuen has invested approximately RMB95 million to the proposed development on the Subject Land, including the annual guaranteed profit paid to Beijing Chao Lai since May 2008 (approximately RMB24 million), survey, design, consulting and professional fees incurred for the permits and licenses for the operation and development of the Subject Land (approximately RMB26 million), costs for land evacuation, leveling and basic infrastructure (approximately RMB29 million), salaries and general overhead expenses (RMB16 million), which will not be reimbursed by the Group or Target Group. Such amounts have not been taken account in the discounted cash flow model by the Valuer. Save for the monetary investment from Mr. Yuen, Mr. Yuen and his team have assisted Beijing Chao Lai to successfully obtain the relevant Rural Construction Planning Permit (鄉村建設規劃許可證) issued by Beijing Municipal Commission of Urban Planning (北京市規劃委員會), which is a crucial permit for the proposed development of a total gross area of approximately 80,404 square meters on the Subject Land. Mr. Yuen and its team have also assisted Beijing Chao Lai to successfully obtain the following approvals and permits relevant to the proposed development on the Subject Land:

- Project approval by Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會) and Beijing Municipal Commission of Urban Planning (北京市規劃委員會)
- Land use approval by Beijing Municipal Bureau of Land and Resources, Chaoyang Branch (北京市國土資源局朝陽分局)

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- Environmental impact approval by Environmental Protection Bureau of Chaoyang District Beijing Municipality (北京市朝陽區環境保護局)
- Energy saving planning approval by Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會)
- Transportation planning approval by Beijing Municipal Commission of Transport (北京市交通委)
- Civil defence planning approval by Beijing Municipal Bureau of Civil Defence (北京市民防局)
- Virescence planning approval by The Virescence Bureau of Chaoyang District Beijing Municipality (北京市朝陽區園林綠化局)

The Target Group could not proceed with the planning, construction and operation on the Subject Land without the above permits and approvals. Those permits and approvals in relation to the proposed development on the Subject Land by the Target Group are unique to the project and are not transferrable. All these intangible contributions by Mr. Yuen justifies the substantial increment in the Consideration. The Board is of the view that the Consideration is fair and reasonable and in the interests of the Company and its Independent Shareholders as a whole.

Financial information of the Target Group

As stated in the Board Letter, no audited financial statements of the Target Company, the Hong Kong Company and the PRC Company have been prepared since their incorporation on 9 June 2011, 11 July 2011 and 11 January 2012 in the BVI, Hong Kong and the PRC respectively. As stated in the Board Letter, the major asset held by the Target Group is the licenses and certificates in relation to the development and operation of the Subject Land and Proposed Project as abovementioned.

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The following is the financial information of the Target Group as extracted from the accountant's report on the Target Group as set out in Appendix II to this circular from the date of incorporation of the Target Company on 9 June 2011 up to 31 December 2011 and the period from 1 January 2012 to 31 March 2012, respectively, which was prepared in accordance with Hong Kong Financial Reporting Standards:

Illustration 3b: Financial information of the Target Group

	From 9 June 2011 (date of incorporation of the Target Company) up to 31 December 2011	From 1 January 2012 to 31 March 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	—	—
Net loss before taxation	7	1
Taxation	—	—
Net loss after taxation	7	1
	As at 31 December 2011	As at 31 March 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net liabilities	7	8

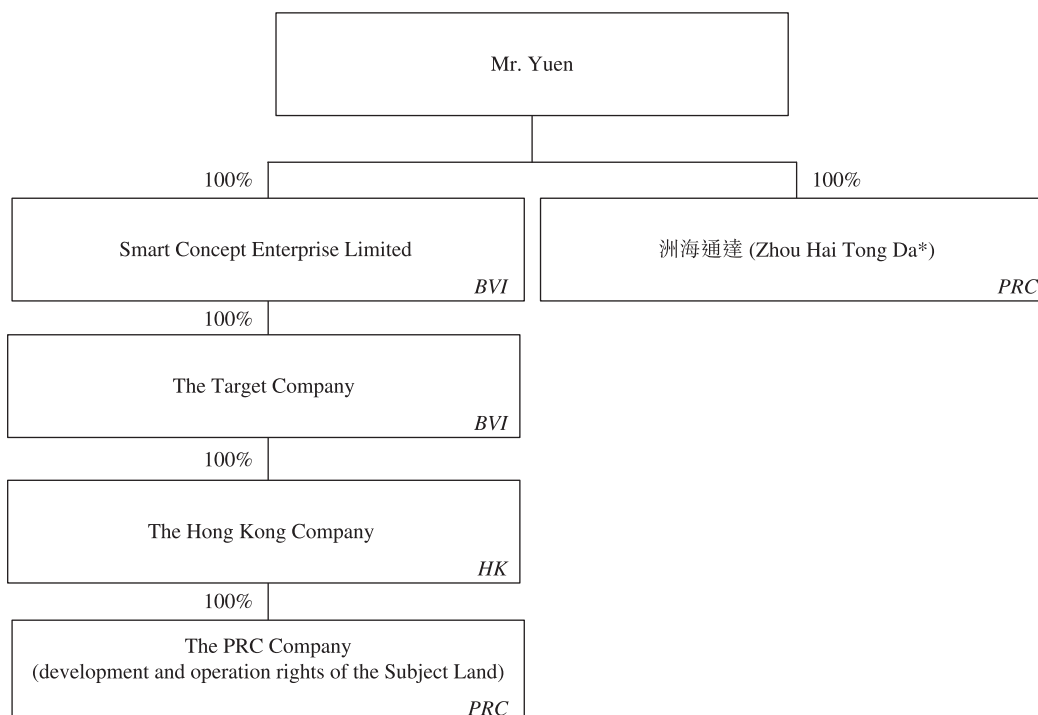
As at 31 December 2011, the Target Group has no operation and has incurred approximately HK\$7,000 net loss and recorded net liability of approximately HK\$7,000 due to legal and professional fees, and bank charges incurred. As at 31 March 2012, the Target Group remained no operation and recorded net liability of approximately HK\$8,000.

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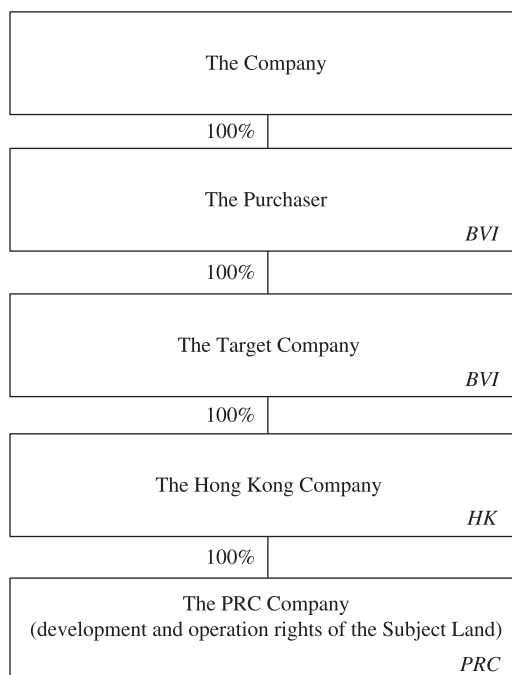
1.3 The Completion

The following chart sets out the shareholding structure of the Target Group as at the Latest Practical Date and at the Completion.

As at the Latest Practicable Date



At the Completion



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Save as disclosed in the Board Letter, the Company did not purchase Zhou Hai Tong Da which entered into the First Cooperation Agreement with Beijing Chao Lai in order to reduce any potential risk and as a result of the consideration of the following factors:

- Zhou Hai Tong Da was established in 2007 with five years history and has been engaged in trading business other than the development of the Subject Land. The Company would only like to acquire the business in relation to the development of the Subject Land but is not willing to acquire the other trading business and its history.
- Zhou Hai Tong Da has not signed proper employment agreement with its employees since its incorporation and has not properly made provident fund payment for its employees. There may be potential legal risks in particular to those former employees of Zhou Hai Tong Da.
- As Zhou Hai Tong Da has five years history, the Company may not be able to identify if there is any contingent liabilities of Zhou Hai Tong Da even after thorough due diligence exercise.

Upon Completion, the Target Group will become wholly-owned subsidiaries of the Company and their results will be consolidated into the Group's consolidated financial statements.

2. Reasons for and benefits of the Proposed Acquisition

2.1 The hotel and motel industry and recreational and tourism services in the PRC

(a) *Overview of tourism industry in the PRC*

Total arrivals to China grew by a slower than expected number in first half of 2011, reaching 66.3 million according to figures released by the China National Tourism Administration (CNTA). This represented growth of 1.15% year-on-year (y-o-y), below the 6.3% growth level seen in full-year 2010. In part, this reflects the traditional cycle of the tourism sector, with arrivals picking up towards the end of the year. However, it is certainly a concern that international arrivals have slowed, which may reflect slowing growth prospects for North American and EU economies. The Chinese government has ambitious plans for the tourism industry. Figures from the World Travel & Tourism Council (WTTC) show that collective investment by the government in the industry has totaled in excess of US\$4 billion annually since 2001. China was the third largest recipient of foreign visitors in the world (in terms of aggregate numbers) in 2010. By 2020, the authorities say that they expect foreign exchange earnings from the industry to hit US\$58 billion (rising from US\$39 billion in 2009). Additionally, they anticipate that annual visitor numbers will reach 210 million a year, up from 134 million for 2010. Unsurprisingly, Hong Kong contributes the most visitors to China — about 60% in 2010. In terms of achieving the government's ambitious targets for the tourism industry, two factors bode well: an easing of visa requirements and the progress of industry liberalisation and foreign investment. A significant proportion of foreign investment is being directed towards the hospitality

industry. The first foreign-managed hotel to open in China was the Jianguo in Beijing in 1982 by Hong Kong and Shanghai Hotels, but overseas activity has since exploded, particularly in recent years. Additionally, there has been significant progress in opening up travel agencies. As part of its entry to the World Trade Organization (WTO), China was obliged to liberalise this sector by 2005 but it began the process early.

(b) *Overview of hotel and motel industry in the PRC*

The Chinese hotel & motel industry had total revenue of US\$59.5 billion in 2010 (2009: \$51.9 billion), representing a compound annual growth rate (CAGR) of 10% for the period between 2006–2010. The performance of the industry is forecast to accelerate, with an anticipated CAGR of 12.7% for the five year period 2010–2015, which is expected to drive the industry to a value of US\$108 billion by the end of 2015. The hotel & motel industry is strongly influenced by travel and tourism trends. The situation within the industry has changed significantly in recent years. The business used to be strong and the biggest challenge was finding space to book. Now that it is a buyer's market, most hotel sales people are faced with the challenge of finding customers. The recent global economic downturn had an adverse effect on the industry performance and now more than ever, most hoteliers are searching for demand generators and are relying on direct sales to impact revenues and fill the significant void left by ailing economy. However, the industry in China, unlike its global counterparts has been enjoying a healthy growth, which coupled with positive forecasts, attracts newcomers. The number of star-rated hotels in China as a whole had reached 14,000 by 2007, an increase of nearly 420% since 1997. In Beijing, there were 700 star-rated hotels in 2007, with 160,700 rooms, and local estimates put the number of rooms at 151,000 by early 2008. Subject to the locations, room size or type of services provided, the room rates charged by 5-star hotels are various.

(c) *PRC recreational and tourism services related policies*

The hotel and motel industry is strongly influenced by travel and tourism trends. According to 《中國旅遊業“十二五”發展規劃綱要》, China was the fourth largest recipient of foreign visitors in the world (in terms of aggregate numbers) in 2009. Promotion of recreation and tourism industry remains one of the main objectives of the PRC government under its twelfth five year plan (十二五規劃), which sets out the overall direction of PRC government policies from 2011 to 2015. Pursuant to the Twelfth Five-Year Plan for the National Economic and Social Development and the Opinions of the State Council on Accelerating the Development of the Tourism Industry (《國務院關於加快發展旅遊業的意見》), the government will make vigorous efforts to stimulate consumptions in the cultural and tourism sectors over the next five years, including but not limited to deepen domestic tourism resources, especially the urban and rural leisure resource development.

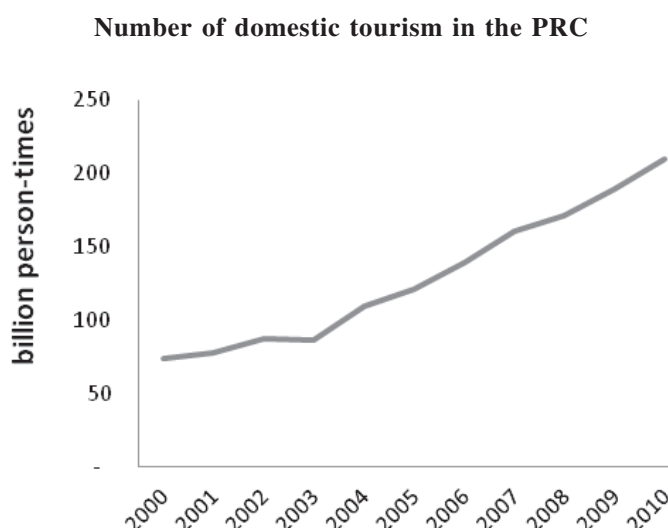
According to the China National Tourism Administration (國家旅遊局) estimated that, by the end of 2015, the total tourism income will reach RMB2.3 trillion with an average annual growth rate of 9% and the number of domestic visitors will reach 3.3 billion person times with an annual growth rate of 10%. This increasing demand of

tourism services will result in approximately 15.25 million new tourism related job creation and tourism and related consumption will increase to 4.5% of the national GDP, representing 12% of the total income of the services sector, and 10% of consumer's total expenses.

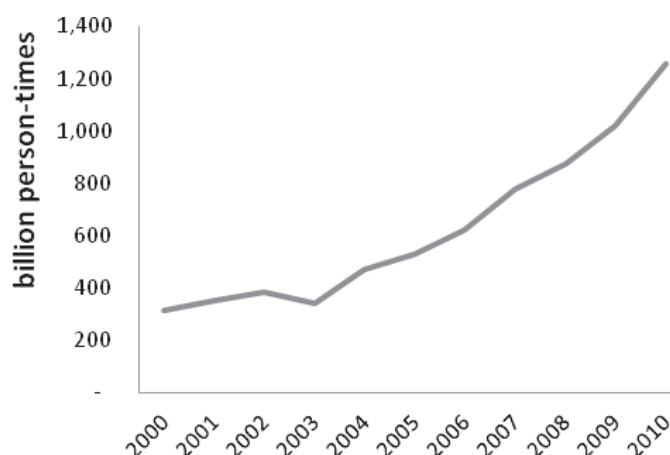
As per the data in table 18–19 Domestic Tourism (國內旅遊情況) under the section headed “Hotels, Catering Services and Tourism” (住宿、餐飲業和旅遊業) of *China Statistics Yearbook 2011* (中國統計年鑑2011) published by China Statistics Press (a specialized publisher under the National Bureau of Statistics of China) in September 2011, with reference period from 2000 to 2010, the earnings and the number of domestic visitors in the PRC increased significantly during the 10-year period from 2000.

- The earnings from domestic tourism recorded approximately RMB1,258 billion in 2010 (2000: RMB318 billion), representing a CAGR of 14.8% during the 10-year period from 2000.
- The number of domestic visitors recorded was 210 billion person times in 2010 (2000: 74 billion person times), representing a CAGR of 10.9% during the 10-year period from 2000.

Illustration 4a: Earnings from and the number of domestic tourism in the PRC during the 10-year period from 2000 to 2010



Earnings from domestic tourism in the PRC



Source: National Bureau of Statistics

(d) Recent development in the hotel and motel industry in the PRC and the Beijing region

According to “*Hotels and Motels in China*” issued by *Datamonitor* in October 2011 and “*China Tourism Report*” issued by *Business Monitor International* in August 2011, the Chinese hotel and motel industry recorded total revenue of RMB59.5 billion in 2010, representing a CAGR of 10% for the period spanning 2006 to 2010. It is forecasted an anticipated CAGR of 12.7% for the five-year period from 2010 to 2015 and the industry revenue of RMB108 billion will be recorded by the end of 2015. Also, the hotel and motel industry is influenced by travel and tourism trends.

Set out below is the data obtained from Beijing Statistical Information Net (北京統計信息網) of Beijing Municipal Bureau of Statistics (北京市統計局) for the period from 2008 to May 2012.

**Illustration 4b: Total number of visitors served by starred hotels
in Beijing Municipal**

Starred hotels	2008	2009	2010	2011	The first 5 months of 2011	The first 5 months of 2012
1-star	239,569	204,663	187,286	153,547	50,152	49,650
2-star	2,631,858	2,920,645	3,465,932	2,783,363	1,011,304	1,017,372
3-star	5,212,842	5,900,840	6,919,655	7,041,976	2,649,851	2,546,507
4-star	5,066,528	5,248,090	6,035,028	5,889,601	2,216,734	2,429,541
5-star	<u>2,509,718</u>	<u>3,998,722</u>	<u>4,645,792</u>	<u>5,242,598</u>	<u>1,964,487</u>	<u>2,109,859</u>
Total	15,660,515	18,272,960	21,253,693	21,111,085	7,892,528	8,152,929
Portion of guest served by						
5-star hotels	16.0%	21.9%	21.9%	24.8%	24.9%	25.9%

Source: Beijing Statistical Information Net (www.bjstats.gov.cn)

According to the table above, the total number of guests served by starred hotels in Beijing Municipal increased from 15.66 million person times to 21.11 million person times, representing a CAGR of 10.5% during the 4-year period from 2008 to 2011. Among all starred hotels in Beijing Municipal, the number of guests served by 5-star hotels (1) increased from 2.51 million person times to 5.24 million person times, representing a CAGR of 27.8%, during the 4-year period from 2008 to 2011, and (2) as a percentage of guests served by all starred hotels in Beijing Municipal, gradually increased from approximately 16% in 2008 to approximately 25% in 2011. During the first five months of 2012, the total number of guests served by all starred hotels in Beijing Municipal increased by 3.3% compared to the same period in 2011, while a 7.4% increase was recorded for 5-star hotels.

Having taken into account the factors including but not limited to (1) the continuous double-digit growth of the number of guests of 5-star hotels in Beijing Municipal during the last 4-year period; (2) Beijing being the political centre of the PRC which has high volume of inbound visitors for political and business purposes; (3) Beijing being one of the historical cities in the PRC which attracts travelers; and (4) Beijing being ranked the fifth among all PRC cities for the number of inbound visitors in 2010 as published in the *China Statistical Yearbook 2011*, we are of the view that the hotel and motel industry in Beijing has not saturated.

The existing and future members of “Bayhood No. 9 Club” are expected to be part of the major target customer group who will access the golf and various recreational facilities as well as the villas as their accommodation in “Bayhood No. 9 Club”. Given the factors as set out above, in particular, (i) the number of visitors in Beijing Municipal, (ii) the Proposed Project serving as a one-stop solution of accommodation for customers of “Bayhood No. 9 Club”, and (iii) the valuation modeling including but not limited to the valuation methodology adopted, assumption applied and the financial modeling used, we are of the view that the Target Group is likely to achieve the result estimated by the valuer as set out in the valuation report in Appendix IV of this Circular.

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As disclosed in the section headed “4.1 The Valuation” in this letter, our review and analysis on the fairness and reasonableness of the Valuation includes (i) interview and discussion with the Valuer, (ii) reviewed the terms of engagement of the Valuer, (iii) review the independent valuation report as set out in Appendix IV of this Circular, and (iv) review the expertise of the Valuer.

As stated in the valuation report in Appendix IV of this Circular, the Valuer compared the room rate, occupancy rate and EBITDA margin of high-end hotels in Beijing with assumptions adopted in the Financial Projection provided by the Company. Among those comparable hotels, we understand from the Valuer that Aman at Summer Palace (安縵頤和) focuses on providing 5-star villas type hotel services in Beijing. From the perspective of the management of the Group, Aman at Summer Palace is close to the Proposed Project in terms of structural design, construction plan and low density. The comparison includes other 5-star hotels located in Beijing.

According to the valuation report as set out in Appendix IV to this circular, a sample of twelve 5-star hotels in Beijing stated in Table 1 of the valuation report is sourced from the feasibility studies “北湖玖苑項目可研報告” prepared by the Management in November 2011. We also reviewed the feasibility study report and noted that the sample was selected in basis of random sampling of 5-star hotels in Beijing. According to the latest statistics published by Beijing Statistical Information Net (Table 2–39 of “2010年北京市分區縣主要統計數據目錄”, www.bjstats.gov.cn/sjfb/bssj/nds/201108/P020110823342094689167.xls), there is a total of 729 starred hotels in Beijing in 2010, of which 142 are located in Chaoyang District without further breakdown by hotel rating. Among those twelve 5-star hotels in the sample, 9 of them are located in the Chaoyang District and the remaining 3 hotels, namely Aman at Summer Palace, Grand Hyatt Beijing, and Regent Beijing, located outside Chaoyang District. Aman at Summer Palace is the only 5-star villas type hotel services located in Haidian District and is included in the sample with the reason as abovementioned. Grand Hyatt Beijing and Regent Beijing are located in Dongcheng District and operated by international hotel chain brands, Hyatt Hotel Corporation and Regent International Hotel, respectively. Having considered that (1) the majority of the sampling hotel is located in Chaoyang District and (2) hotels operated by major international hotel chain are also included in the sample, we consider the sampling is fair and reasonable.

It is noted that the Valuer adopted statistics from China Hotel Industry Study 2011 issued by China Tourist Hotel Association and Horwath HTL for estimating the occupancy rate and EBITDA margin. According to Beijing Statistical Information Net (www.bjstats.gov.cn), the average occupancy rate of 5-star hotel in Beijing is approximately 60.4% (2010) and 64.2% (2011) which are close to the occupancy rate of 59% stated in China Hotel Industry Study 2011. Therefore, we consider that the average occupancy rate estimation is fair and reasonable.

Based on our review and enquiry to the Valuer and the consideration of the expertise of the Valuer, we consider that the approach adopted by the Valuer’s analysis of comparing the hotel industry with the Target Group’s business is fair and reasonable.

Having considered (1) the business model of the Target Group and the Proposed Project as abovementioned; (2) the target clientele as described in the section headed “Business Plan of the Target Group” in the Board Letter; (3) that the construction of the hotel villa is not a villa-for-sale project and according to our best knowledge, there is rare or even no other hotels/clubs of its kind in the region around Beijing or even throughout the PRC so far; and (4) that there is no other public or listed companies which operate under a similar membership business model as per our best knowledge, we are of the view that the approach adopted by the valuer’s analysis of comparing the hotel industry with the Target Group’s business is fair and reasonable.

2.2 Corporate strategy of the Group

As disclosed in the Board Letter, The Group intends to develop and operate the Subject Land as the extension of “Bayhood No. 9 Club”. Low density, double-storey deluxe hotel villas and conferencing facilities equipped with basement, luxurious amenities and gardening will be built on it. They will be operated in the form of serviced apartments and leased out on short to long terms depending on gross floor area of villa. As “Bayhood No. 9 Club” is currently only equipped with golf, spa, dining and retail facilities, the development and operation of serviced apartments in the vicinity enables the Group to provide more comprehensive and complementary services to customers. Current and potential members of “Bayhood No. 9 Club” are considered to be the target customers for the Proposed Project, which will also be branded as “Bayhood No. 9”. As disclosed in the section headed “Reasons for and benefits of the proposed acquisition” of the Board Letter, the Company believes that, through the Proposed Project, including but not limited to the development and operation of serviced apartments and villas, the Proposed Acquisition will create considerable synergies to it and help it to tap further into the high-end recreational and tourism services sector.

Driven by the robust growth of the Chinese economy, the consumption power of local residents, especially the top niche group, has substantially increased. There is growing number of people who have developed a strong interest in and can afford luxurious residences or vacations with golf course and comprehensive club facilities. According to the recent Global Wealth Report by Credit Suisse in October 2011, the PRC was one of the six countries with the highest wealth increase and had about 10.17 million millionaires. This figure is expected to double in the coming five years. The Directors believes that the increasing number of wealthy people in the PRC will create a favorable environment for the luxury residences and vacations market which has plenty of room for growth in the PRC.

The development and operation of the Proposed Project near “Bayhood No. 9 Club” puts the Group in a better position to capture business opportunities that may arise in the market. Moreover, the expansion of high-end recreational and tourism services business will boost the Group’s revenue base and profitability, laying a solid foundation for its sustainable development.

According to the Directors, up to the Latest Practicable Date, the Company does not contemplates any intention, negotiation, agreement, arrangement and understanding (concluded or otherwise) about any disposal, scaling down and/or termination of its existing

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businesses, particularly the media business, and/or major operating assets. The Vendor and/or Mr. Yuen do not intend to nominate any director/senior management to the Company in view of the Proposed Acquisition.

For the year ended 31 December 2011, the Group's recreational and tourism business was the largest revenue contributor accounting for approximately HK\$64.6 million, representing approximately 51.6% of the Group's revenue.

As set out in the AR2011 in respect of the Group's recreational and tourism services business, the number of ultra-high-net-worth individual (personal net worth of over US\$50 million) in the PRC keeps rising as the national economy maintains rapid growth, stimulating the growth of domestic high-end consumption. The management of the Company believes that high-end consumption business commands higher gross margins and has ample room for expansion. Targeting high-net-worth individuals and corporations in the PRC, the Group will develop the "Bayhood No. 9 Club" operation into the flagship project for the Group's high-end recreational and tourism service business, thereby extending the Group's value chain for greater profitability.

The Board is of the view that the Proposed Acquisition represents a logical extension of the Group's "Bayhood No. 9 Club" operation and would enable the Group to broaden its income base. Furthermore, the Proposed Acquisition represents an opportunity for the Group to become an extension for accommodation services under the brand name "Bayhood No. 9 Club".

2.3 Strategic reasons behind the Proposed Acquisition

As set out in the Board Letter, the management of the Company expects that significant synergies will arise between the Group's existing business of "Bayhood No. 9 Club" and the enlarged recreational and tourism services business and will provide the impetuses and a key growth driver for the Enlarged Group's operations. Independent Shareholders should note that, the Proposed Acquisition will result in several effects to the Group upon Completion, including but not limited to (1) the immediate financial effect as set out in Appendix III to the Circular, specifically, the temporary increase in the operating loss and interest incurred from the Convertible Note and Promissory Note, and the possible decrease in net asset value upon full conversion of the Convertible Note; (2) higher leverage arising from the Promissory Note and Convertible Note as part of the Consideration; and (3) the possibility of increased shareholding of Mr. Yuen due to conversion of Convertible Note. Notwithstanding the drawback as abovementioned, the Proposed Acquisition will (1) broaden the income base of the Group; (2) provide an optional accommodation for the customers of "Bayhood No. 9 Club"; (3) further diversify the Group's operation and source of income; and (4) further build the brand name of "Bayhood No. 9 Club" in the PRC.

In view of the above factors, the Directors are of the view that the Proposed Acquisition is in the interest of the Company and the Shareholders as a whole.

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Our view

In view of the above, we consider that the outlook for the recreational and tourism services industry is generally positive. Having considered that (i) the Proposed Acquisition would provide an opportunity for the Group to broaden its source of income; (ii) the outlook for the recreational and tourism services industry is in generally positive; (iii) the complementary corporate strategy of the Subject Land as an extension of “Bayhood No. 9 Club” and the synergy that may be arose, we are of the view that the Proposed Acquisition, although is not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Independent Shareholders as a whole.

3. Principal terms of the Proposed Acquisition

Date	25 May 2012
Subject Matter	The entire issued share capital of Yuan Shun Investments Limited (as the Target Company)
Purchaser	Unique Talent Group Limited, an investment holding company incorporated in BVI and is a wholly-owned subsidiary of the Company.
Vendor	Smart Concept Enterprise Limited, an investment holding company incorporated in BVI and a wholly-owned subsidiary of Mr. Yuen, indirectly holding approximately 17.58% interest of the Company as at the Latest Practicable Date. Since the Vendor is an associate of Mr. Yuen, the Vendor is a connected person pursuant to Rule 14A.11(4) of the Listing Rules.

As at the Latest Practicable Date, the Target Company is legally and beneficially owned as to 100% by the Vendor.

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Asset to be
acquired

The asset to be acquired is the Sale Share, representing the entire issued share capital of the Target Company, which is an investment holding company, holding interest in the entire issued share capital of the Hong Kong Company. The sole asset of the Hong Kong Company is the interest in the entire issued share capital of the PRC Company which has been established on 11 January 2012. Save the Second Cooperation Agreement dated 30 January 2012 entered into between the PRC Company and Beijing Chao Lai relating to the development and operation rights of the 580 acres (equivalent to approximately 387,000 square meters) of the Subject Land up to 31 May 2048, the PRC Company has not engaged in any other business activities.

The Sale Share and the one share representing the entire issued share capital of the Hong Kong Company have been pledged to a financial institution in Hong Kong by the Vendor for a loan of HK\$195 million secured by, *inter alia*, the personal guarantee from Mr. Yuen, the sole shareholder of the Vendor, and a Debenture. It is a condition precedent for Completion that the Sale Share, the entire issued share capital of the Hong Kong Company and the entire issued share capital of the PRC Company shall be free from encumbrances at the own cost of the Vendor on Completion.

The Debenture includes provisions that the financial institution, as a charge, shall have the right to declare that, among other things, the security forming the subject matter of the Debenture become enforceable upon the occurrence of an event of default by the Vendor, the Hong Kong Company or the Target Company. The original purpose of the said loan was to satisfy Mr. Yuen's personal investment needs, Mr. Yuen intends to settle the Debentures on or before 31 August 2012. As such, the charges over the equity of the Target Group is expected to be released prior to Completion.

Consideration

The Consideration was agreed at HK\$900 million and shall be satisfied by the Purchaser in the following manner:

- HK\$50 million shall be paid in cash by the Purchaser to the Vendor on Completion;
- HK\$150 million shall be settled by way of Promissory Note to be issued by the Purchaser on Completion; and
- HK\$700 million shall be settled by the Purchaser procuring the Company to issue the Convertible Note with principal amount of RMB 569 million to the Vendor on Completion.

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The cash portion of the Consideration to be paid by the Purchaser to the Vendor will be financed by internal resources of the Group.

As confirmed by the Company, the Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor on normal commercial terms by reference to, among other things, the fair value of 100% equity interest of the Target Company as at 31 December 2011 of approximately HK\$1,048 million appraised by American Appraisal China Limited (the "Valuer"), an independent valuer. The income approach has been applied as the valuation approach, which constitutes a profit forecast under Rule 14.61. The requirements under Rule 14.62 will be complied by the relevant parties. The Company has appointed the Valuer to prepare a valuation report in relation to the development and operation rights of the Subject Land as of 31 December 2011 ("Valuation Date") and the projected cash flow adopted in the valuation covers the period from the Valuation Date up to 31 May 2048 under the Second Cooperation Agreement. Therefore, the valuation was performed according to the business plan of the Company, in which the Group intends to develop the Subject Land as the extension of "Bayhood No. 9 Club" that low-density, double-storey deluxe hotel villas and conferencing facilities with total floor area of 80,404 square meters would be constructed. Those villas will be operated in the form of serviced apartments and leased out on short to medium terms.

4. Evaluation of the Consideration

4.1 The Valuation

As stated in the Board Letter, the Consideration was determined after arm's length negotiation between the parties by referencing to, among other things, the valuation of the 100% equity interest of the Target Group, the Proposed Project and the Subject Land as at 31 December 2011. According to the valuation report dated 8 August 2012 issued by the Valuer (the "Valuation Report"), the fair value of the Proposed Project as at 31 December 2011 was RMB849 million (approximately HK\$1,048 million) (the "Valuation"). The Directors advised that no operation was conducted on the Target Group and that there is no material change to the financial position of the Proposed Project and Subject Land since the Valuation Date.

In assessing the fairness and reasonableness of the Valuation, we have studied the expertise of the valuer, reviewed the terms of engagement, interviewed and discussed with the Valuer the methodology of, and basis and assumptions adopted for, the valuation of the development and operation rights of the Subject Land and/or the Proposed Project as set out in the independent valuation report as set out in Appendix IV to the Circular.

Expertise

We noted that the Valuer, Mr. Ricky Lee, is a fellow member of the Association of Chartered Certified Accountants, accredited senior appraiser of the American Society of Appraisers and charter holder of the Chartered Financial Analyst who has been involved in business enterprise and intangible asset valuation services for the purpose of joint venture, merger and acquisition and public listing for over fifteen years. Ms Joan Wong, the assistant to Mr. Ricky Lee on preparing the Valuation Report, is a fellow member of Association of Chartered Certified Accountants, charter holder of the

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Chartered Financial Analyst. She has more than six years experience in providing business enterprise and intangible asset valuation services for the purpose of financial reporting and corporate restructuring related engagements. As such, we are of the view that the Valuer has posed sufficient experience in performing the valuation of the assets of the Target Company.

Basis of determination of the Consideration

The Valuation of the Proposed Project is estimated on the basis of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the “Fair Value”).

Save as the Valuation Report, the Fair Value is generally interpreted to have the same definition of fair market value in continued use, which is defined as the estimated amount at which the company might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

Valuation methodology

In our assessment of the reasonableness of the adoption of the income approach by the Valuer, we have reviewed the Valuation Report and discussed with the Valuer, among other things, the assumptions, bases and methodologies adopted for the Valuation. According to the Valuation Report, there are three commonly accepted valuation approaches in similar valuations, namely the cost approach, the income approach and the market approach:

- The cost approach requires to estimate the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable;
- The income approach is generally adopted when the future income of the enterprise can be reasonably estimated; and
- The market approach requires comparable transactions with similar industry and business size for benchmarking.

Given that (i) the Target Group has no operation before, without any financial results or assets for benchmarking, and (ii) there are limited comparable transactions of similar business size in the same industry as the Proposed Project, the Valuer considers the market approach and cost approach inappropriate for the purpose of valuing the equity interest of the Target Company and the Proposed Project. Because (i) the assets of the Target Company are the development and operation rights of the Subject Land, and (ii) the Proposed Project has not commenced, the Valuer considers the income approach adopted to be the most appropriate valuation approach for the Valuation. By adopting the income approach, based on the financial projection covering the period

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from 2012 to 2020 and extrapolated to 2048 of the Proposed Project prepared by the management of the Company, the Valuer prepared a business enterprise value analysis of the Target Group.

A form of the income approach known as discounted cash flow method (“DCF”) was used to value the Proposed Project. This method explicitly recognizes that the current value of an investment is premised upon the expected receipt of future economic benefits such as periodical income, cost savings, or sale proceeds. Indication of value is developed by discounting future net cash flow to the present value at a rate that reflects both the current return requirements of the market and the risk inherent in the specific investment. The discounted cash flow analysis is based on the timing on the occurrence of future free cash flows attributable to the Proposed Project and does not involve the application of accounting policies which govern income and expenses recognized on accrual basis and matching principle.

We understand from the Valuer that in applying DCF, expected cash flows to be generated from the Proposed Project in the future were first estimated. These cash flows were then discounted using a discount rate to determine the present value of the expected cash flows. We have discussed with the Valuer the principal assumptions used in the calculation of the expected cash flows in relation to, among others, expected daily room rental rate, expected occupancy rate, expected capital cost and operating costs, as well as the basis in determining the discount rate adopted for the valuation. We also understand from the Valuer that a discount for lack of marketability has been applied to the present value of the expected cash flows in performing the Valuation to reflect the lack of a ready market for Proposed Project which is a closely held company as compared to similar interests in publicly listed companies.

Our view

Based on our review and discussions with the Valuer, we concur with the Valuer that DCF is suitable in valuing the Proposed Project since (i) the recurrent nature of rental income to be derived from the Proposed Project; and (ii) we understand from the Valuer that DCF is one of the most commonly used valuation methods in valuation of hotel projects for listed companies.

Factors considered in the Valuation

We understand from the Valuation Report that the Valuer has considered the following factors: (i) the preliminary stage of development of the Proposed Project and Target Group without track record; (ii) current financial condition of the Proposed Project and Target Group; (iii) financial projection provided by the Management; (iv) economic outlook for China and specific competitive environments affecting the industry of the Proposed Project and Target Group; (v) legal and regulatory issues of the Proposed Project and Target Group, including; (vi) the risk of the Proposed Project and Target Group; (vii) experience of the Company in hospitality business.

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Independent Shareholders should note that, as stated in the Valuation Report, the Valuation was computed after due and careful consideration principally in accordance with the reporting standards recommended by the International Valuation Standards Council (“IVSC”) and based on the relevant financial information as well as its assumptions, analysis and judgments made relating thereto. Based on our review and discussions with the management of the Company and the Valuer, no major factors has been identified which cause any doubts to the reasonableness of the principal assumptions underlying the Valuation.

Major assumptions

According to the Board Letter and Valuation Report, the major assumptions of the Valuation, including but not limited to, as the following:

Revenue	By referencing the average room rate and occupancy rate for high-end hotels in Beijing, it is assumed to be RMB55 per square meter per day with an annual occupancy rate of 60% during the forecasting period. As inflation was expected in the PRC, an annual growth rate of 5% was assumed on the rental charges by assuming that growth rate is in line with the GDP and inflation estimation, after took reference of and considering (i) GDP and consumer price inflation from 2013 to 2016 were expected to be 8.1% and 4.3% respectively; (ii) the expected growth rate in hotel and motel industry in China of 12.7% from 2010 to 2015; (iii) the expected inflation rate of 3.8% in China in 2012; and (iv) the absence of potential incomes generated from provision of food and beverage.
Business, property and income tax	Industry standard business (5.5%), property tax (1.2% of original value with certain deduction which is assumed to be 30%) and corporate income tax policy (25%) were applied in the discounted cash flow analysis.
Operating expenses and EBITDA	Operating expenses include land use right payment, general administrative expenses, salaries, depreciation, and overhead etc. For the land use right payment, the amount was estimated according to the Second Cooperation Agreement, which is RMB6 million per annum with an increment of 10% increase in every 5 years. Without any historical track record as reference, it was assumed the Target Group could achieve the operating results similar to its peers, which is around 33% of revenue in terms of EBITDA margin. According to the Valuer, it is in line with the result of 36% EBITDA margin for 5-star hotels in Beijing extracted from China Hotel Industry Study 2011.

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Capital expenditure	Based on the business plan, it was assumed the initial investment cost would be approximately RMB838 million. According to the Valuer, with planned total floor area of 80,404 square meters, the average initial cost would be approximately RMB10,422 per square meter, which is in line with the result of high-end houses and 5-star hotels in Beijing extracted from industry report “Quarterly Construction Cost Update”. After the fourth projection year, the capital expenditure would approximate to annual depreciation charges on the initial investment cost. Given the long operational period up to 2048, 5% annual growth was assumed on the capital expenditure.
Working capital	Due to the nature of hotel or serviced apartment business, no substantial amounts of account receivable or inventory are expected. Net working liabilities were observed in accordance with historical track record of comparable companies or the industry statistics. Thus, no working capital was projected.

Discount rate

The rate at which the annual net cash flows discounted to present value is based on the estimated weighted average cost of capital (“WACC”), which incorporates the cost of equity and debt, weighted by the proportionate amount of each source of capital in the capital structure. Since the Target Group has no operation before, the cost of equity is more appropriate to determine the discount rate of the Proposed Project by assuming it is all equity financing. The cost of equity for the valuation was developed through the application of the Capital Asset Pricing Model (“CAPM”), which is the most commonly adopted method of estimating the cost of equity. CAPM states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk (“Beta”) times equity market premium in general. In estimating the Beta, the Valuer has observed the share price movement relative to overall equity market index of several listed comparable companies engaged in hotel business. The Valuer considered that the Target Group does not have the ownership on the Subject Land and the Company intended to develop the Subject Land into low density and deluxe hotel villas, the Valuer applied two criteria to search comparable companies: PRC Companies engages in hotel business without ownership on the hotel property and international brands providing high-end hotel services. Selected comparable companies in hotel business are regarded generally to be subjected to the same systematic risks as the Target Group. In view of the early stage of development of the Proposed Project and the non-diversifiable risk borne by investment in a single hotel operation, a property related project-specific risk premium was also added subjectively to cost of equity. By assuming (i) the risk-free rate of return of 4.03% based on the yield on China government long-term bond with maturity in 2060 as of the date of Valuation; (ii) the beta of 0.98 based on the betas of the selected comparable companies stated in Valuation Report; (iii) equity risk premium of 7.12% based on equity risk premium of the United States plus the market systematic risk in the PRC; and (iv) project-specific risk premium of 2.5% which is a non-diversifiable risk borne by investment in single company and the early stage of development, the WACC of 13.5% is adopted for valuing the Proposed Project.

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Lack of Marketability Discount ("LOMD")	As the Target Company is a privately held company, which is of lower liquidity if the owner choose to sell, compared to freely traded shares in a public company. LOMD of 20% was applied in the Valuation to reflect the fact that there is no ready market for shares in a privately owned company.
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We noted that the Valuer has taken into account a number of factors including (i) the risk free rate; (ii) equity risk premium; and (iii) beta of a number of comparables. To estimate the beta, a major requirement is to identify comparable companies that are engages in hotel business and are regarded generally to be subject to the same systematic risks as the Target Group. The Valuer applied two criteria to search comparable companies: (i) the PRC companies engage in hotel business without ownership on hotel property and (ii) international brands providing high-end hotel services, after considered that the Target Group does not have the ownership on the Subject Land and the target customers or positioning of the Proposed Project is similar to those international brands in terms of services, charging rate, development cost and low density nature and green surrounding area. The Valuer selected 9 comparable companies listed on exchanges in the United States, Hong Kong, Singapore, and London. As such, we are of the view that it is fair and reasonable to derive the beta from such comparable companies. As advised by the Valuer, the unlevered cost of equity discount rate used in the Valuation is within the range of discount rates observed for those selected comparable companies by referencing the estimations extracted from Bloomberg.

Furthermore, we understand from the Valuer that, in view of the fact that the Target Company is a private company, which is of lower liquidity as compared to similar interests in public companies, the Valuer has applied 20% lack of marketability discount based on their analysis. After taking account of the data and statistics recorded by National Bureau of Statistics of China and Beijing Statistical Information Net and reviewing the information provided by the Valuer and discussing with the Valuer, we are of the view that the discount rate and the discount for lack of marketability used by the Valuer in arriving at the Valuation are fair and reasonable. Moreover, we note that in determining the Valuation, the Valuer had taken into consideration and relied on the forecast of the occupancy rate, the average guest room rental rate and the operation and maintenance cost of the Target Group from 2013 to 2048 based on the information provided by the Company and the Target Company. We also noted that the Valuer considered that the forecast and assumption provided by the Management was prepared with due care and considerations. We have obtained and reviewed the worksheet prepared by the Valuer and have reviewed the feasibility study report 《北湖玖苑項目可研報告》 prepared by 國信招標集團有限公司 in November 2011 by the Management.

In determining the reasonableness in respect of the lack of marketability discount, we have made reference to the *Mergestat Review 2011* which compared data derived from market transactions between acquisitions of privately held and publicly traded companies. Given that the 20% marketability discount is applied to the indicated fair

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market value of the business enterprise derived by the DCF model which is deemed to be reasonable for a private company like the Target Company, we concur with the view of the Valuer based on the information provided to us by the Valuer.

The Valuer confirmed that the Valuation is based on accepted valuation procedures and practices, and the underlying assumptions, which are provided by the management of the Company, adopted in the Valuation Report are in line with market data. Based on our review of the major assumptions of the Valuation Report and discussions with the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the assumptions adopted by the Valuer in arriving the Valuation.

Our view

In light of the above and having considered that (i) the basis of LOMD adopted is fair and reasonable; (ii) the beta derived from comparable companies are listed companies engaging in hotel business which is in line with that of the Proposed Project; (iii) the basis and assumptions used in the projections of revenue, operating expenses and EBITDA and capital expenditure of the Proposed Project is acceptable; and (iv) the valuation methodology adopted as discussed above, we are of the view that basis and assumptions used in the Valuation is fair and reasonable.

Comparison with other acquisitions

In assessing the fairness and reasonableness of the Consideration, we note that price-to-earnings multiple ("PER") is a widely adopted approach to compare the implied consideration PER as represented by aggregate consideration of assets being acquired with PERs of other similar listed companies engaging in same principal business. Since the Proposed Project has not generated any income, we do not consider the PER approach is applicable and have conducted a search, on our best effort basis, that are comparable to the Proposed Acquisition based on the criteria that (i) the transactions were related to the acquisitions of property development related assets in the PRC; (ii) the considerations of the transactions were determined with reference to the valuation of income approach with discounted cash flow modeling; and (iii) the transactions were conducted by companies listed on the Main Board of the Stock Exchange which announced their respective acquisitions during the one-year period from 26 May 2011 to 25 May 2012, being the date of the Acquisition Agreement. However, we identified no comparable acquisition under the abovementioned criteria. As a result, we extend the research by covering all other acquisitions of different types of asset together with criteria (ii) and (iii). Based on our research of the published information in the public domain, 24 transactions that meet the abovementioned revised criteria for comparison purpose ("Comparable Acquisitions").

During the one-year period prior to the date of Acquisition Agreement, catastrophic events such as the European sovereign-debt crisis and the downgrade of credit rating of the United State of America happened to give severe impacts to global stock markets, including the Hong Kong stock market. Under such as situation, we are of the view that the length of period is appropriate as such catastrophic events would

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have given the market an opportunity to re-evaluate the fairness of the asset value, and to investigate the risk factors underneath. As such, the valuation of the asset prices are believed to be rational and representative within the period. As the Comparable Acquisitions took place within the one-year period prior to the date of the Acquisition Agreement, we consider that their terms would reflect the general trend of similar acquisitions in the market during the relevant period and are generally of the view that the Comparable Acquisitions, which are announced within 1 year immediately prior to the date of the Acquisition Agreement, are able to reflect the prevailing market condition and form a fair and reasonable basis for our analysis.

Within the one-year period prior to the date of Acquisition Agreement, we have noticed that (i) none of the Comparable Acquisitions has participated in acquisition transaction in identical nature with the Proposed Acquisition; (ii) none of the Comparable Acquisitions have participated in acquisition transaction in similar nature with the Proposed Acquisition; and (iii) no acquisition target has been found to be in identical business nature and operation status as on the Target Group. Based on such criteria, we are of the view that it would be the most suitable to use the Comparable Acquisitions for our analysis below.

We have compared the premium/discount of the considerations to the corresponding valuations of the Comparable Acquisitions.

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Independent Shareholders should note that (i) the business, operation and prospects of the Company are not the same as the Comparable Acquisitions and we have not conducted any in-depth investigation into the business and operations of the Comparable Acquisitions; (ii) the principal terms of the acquisitions (i.e., assets to be acquired, premium/discount of consideration over/to valuation, settlement method, and type of transaction) should be considered in whole rather than in isolation; and (iii) the acquired assets of Comparable Acquisitions may not be the same in terms of their principal activities and should only be considered as a reference of the prevailing market conditions. We set out below our findings:

Table 1: Information on Comparable Acquisitions

	Announcement date	Company name (stock code)	Sector	Nature of assets acquired	Consideration	Valuation	Premium/ (discount) of consideration over/to valuation	Transaction type (Very substantial acquisition (“VSA”)/Major/ Discloseable/ Otherwise)
1	31 May 2011	Irco Group Electronics Co., Ltd. (00438)	Industrial goods	21% equity interest in Jiangsu Yongeng Photovoltaic technology Company Ltd which engages in the solar photovoltaic industry	RMB73.5M	RMB73.5M	0.0%	Discloseable
2	14 June 2011	NWS Holdings Limited (00659)	Conglomerate	22.68% issued share capital of Chinese Future Corporation which holds 95% of operation right of Hangzhou Ring Road in the PRC	US\$226.85M	US\$237–257M (note 1)	–11.7%	Discloseable
3	15 June 2011	Chinese People Holdings Co., Ltd. (00681) (note 2)	Utilities & lottery	100% issued share capital of Grand Destiny Group Ltd which engages in real estate development and lottery business	HK\$465.23M	RMB645M (approx HK\$793M)	–41.3%	Major
4	15 August 2011	First Tractor Co Ltd (00038)	Industrial goods	A total of 45 PRC trademarks registered in the name of YTO Group Corporation (中國一拖集團有限公司) in the PRC	RMB59.5M	RMB59.5M	0%	Otherwise
5	29 October 2011	Yuexiu Transport Infrastructure Ltd (01052) (note 2)	Transportation	100% equity interest in Henan Ruibeika Industrial Company Limited which indirectly wholly-owned the operation rights of Weixu Expressway	RMB2,730M	RMB1,728M	58.0%	Major

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	Announcement date	Company name (stock code)	Sector	Nature of assets acquired	Consideration	Valuation	Transaction type	
							Premium/ (discount) of consideration over/to valuation	(Very substantial acquisition (“VSA”)/Major/ Discloseable/ Otherwise)
6	2 November 2011	Bao Yuan Holdings Ltd (00692)	Consumer goods	100% issued share capital of m3 Technology Development Limited which holds R&D of innovative systems and intelligent product for retail industry and consultancy services in Shenzhen	RMB398M	RMB406M	-2.0%	VSA
7	4 November 2011	China Qinfa Group Ltd (00866)	Mining	48% of Shanxi Huameiao Energy Group Co Ltd (山西華美奧能源集團有限公司) which holds mining right of three coal mines located in Pinglu District of Shanxi, the PRC	RMB2,880M	RMB3,053M	-5.7%	VSA
8	8 November 2011	ABC Communication (Holdings) Ltd (00030)	Technology	55% issued share capital of Billion Light Holdings Limited (億隆控股有限公司) which engages in electronic payment system development	RMB200M	RMB225.5M	-11.3%	Major
9	21 November 2011	Kunlun Energy Company Ltd (00135)	Energy	100% issued share capital of Binhai New Energy Co., Ltd. (天津大港濱海新能油氣有限公司) which engages in the wholesale of petroleum and petrochemicals	RMB214.5M	RMB205.9M (as at 30 Apr 2011)	4.2%	Otherwise
10	21 November 2011	China Railsmedia Corp Ltd (00745)	Media & entertainment	100% issued share capital of Huge Leader Development Limited which engages in advertising and value added services in Hong Kong through mobile devices and digital media network of LCD and flat panel screens in retail chain network	HK\$690M	HK\$690M	0.0%	VSA

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	Announcement date	Company name (stock code)	Sector	Nature of assets acquired	Consideration	Valuation	Premium/ (discount) of consideration over/to valuation	Transaction type (Very substantial acquisition ("VSA")/Major/ Discloseable/ Otherwise)
11	7 December 2011	China Environmental Resources Group Ltd (01130)	Resources	100% share issued share capital of Eugene Finance International Limited which indirectly holds the rights over the forest plantation area in Xia Gui Lake, Song Luo Keng and Hou Zi Shi, Guangdong Province	RMB180M	RMB190M <i>(as at 30 Nov 2011)</i>	-5.3%	Major
12	28 December 2011	China Datang Corporation Renewable Power Co., Ltd. (01798)	Utilities	100% equity interests in Datang Laizhou Renewable Energy Co., Ltd. (大唐萊州新能源有限公司) and Datang Wendeng Clean Energy Development Co., Ltd. (大唐文登清潔能源開發有限公司) which owns wind power stations in the PRC	RMB204M	RMB204M <i>(as at 31 Oct 2011)</i>	0%	Otherwise
13	30 December 2011	Xinjiang Goldwind Science & Technology CO., Ltd. (02208)	Utilities	50% equity interest in Shangdu Tianrun Wind Power Co., Ltd. (商都縣天潤風電有限公司) which engages in wind farm operation in the PRC	RMB128M	RMB127.51M <i>(as at 31 Oct 2011)</i>	0.4%	Otherwise
14	30 December 2011	Sino Prosper State Gold Resources Holdings Limited (00766)	Mining	100% issued share capital of Success State Development Limited which indirectly owns the mining right of Qing Jiao Gold Mine (箐腳金礦) located in Guizhou Province	RMB550M	RMB720M <i>(as at 31 Oct 2011)</i>	-23.6%	Major
15	9 January 2012	Sinofert Holdings Ltd (00297)	Materials — fertilizer	100% of Xundian Lomon Phosphorus Chemical Co., Ltd. (尋甸龍磷磷化工有限責任公司) which holds the mining rights of Meizushao mine in Xundian County, Yunnan Province, the PRC	RMB1,380M	RMB1,330M	3.6%	Otherwise
16	12 January 2012	CVM Minerals Ltd (00705)	Mining	51% issued share capital of Victory Dragon Holdings Ltd which indirectly holds bottled natural mineral water business in the PRC	HK\$200M	HK\$204M	-2.0%	Major

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	Announcement date	Company name (stock code)	Sector	Nature of assets acquired	Consideration	Valuation	Transaction type	
							Premium/ (discount) of consideration over/to valuation	(Very substantial acquisition (“VSA”)/Major/ Discloseable/ Otherwise)
17	29 February 2012	One Media Group Ltd (00426)	Media & entertainment	100% issued share capital of Ming Pao Finance Ltd which is the exclusive owner of the trademark and the past contents of HK Magazines, including City Children’s Weekly, Hi-Tech Weekly and Ming Pao Weekly, which were published prior to 1 February 2004	HK\$75.6M	HK\$76M	–0.5%	Major
18	1 March 2012	Xiwang Sugar Holdings Co Ltd (02088)	Food & beverage	A bundle of operating assets includes brand a new and a used production line of starch, two used production lines of maltodextrin, other related facilities and related land and properties in the PRC	RMB825M	RMB852M	–3.2%	Major
19	23 March 2012	Jiangsu Expressway Co Ltd (00177) (note 2)	Transportation	32.26% of Yajiang Expressway Co which operates and manages Yangjiang Expressway in the PRC	RMB1,466.2	RMB995M	47.4%	Discloseable
20	23 March 2012	Zhaojin Mining Industry Company Ltd (01818)	Mining	100% of the Hou Cang Exploration Rights in Shandong Province and entire equity interest in Jin Han Zun Mining which holds the Da Sha Gou Exploration Right for Dai Sha Gou Gold Mine in Xinjiang	RMB598M	RMB598M (as at 31 Jul 2011)	0.0%	Otherwise
21	13 April 2012	Doxen Energy Group Ltd (00668)	Energy	70% of the equity interest in Chongqing Baoxu Commercial Property Management Ltd (重慶寶旭商業管理有限公司) which holds operates and manages Dong Dong Mall, a shopping arcade located at Chongqing, the PRC	RMB210M	RMB207M	1.4%	Major

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Announcement date	Company name (stock code)	Sector	Nature of assets acquired	Consideration	Valuation	Transaction type		
						Premium/ (discount) of consideration over/to valuation	(Very substantial acquisition ("VSA")/Major/ Discloseable/ Otherwise)	
22	20 Apr 2012	Apollo Solar Energy Technology Holdings Ltd (00566) (note 2)	Technology	100% issued share capital of Hanergy New Energy Research and Development Limited which engages in research and development of solar energy technology	RMB150M	RMB200M	-33.3%	Discloseable
23	18 May 2012	China Polymetallic Mining Ltd (02133)	Mining	90% of the issued share capital of Nujiang Shengjia Chengxin Industrial Company Ltd. (怒江州聖佳誠信實業有限公司) which holds the exploration right to the Liziping Mine located in Lanping Baizu Pumizu Autonomous County, Nujiang Lisuzu Autonomous Prefecture, Yunnan Province, the PRC (雲南省怒江傈僳族自治州蘭坪白族普米族自治縣)	RMB153M	RMB170M	-10.0%	Discloseable
24	22 May 2012	Jiangchen International Holdings Ltd. (01069)	Resources	100% of the issued share capital of Rongxuan Forestry Investment Holdings Limited which indirectly holds the operation and management rights of oak tress forests in Dali, Yunnan Province	HK\$21.3M	HK\$22.5M	-5.6%	Discloseable
						Minimum	58.0%	
						Maximum	-41.3%	
						Average	-1.7%	
						Median	-1.2%	
25 May 2012	The Company	Media & entertainment	100% of the issued share capital of the Target Company	HK\$900M	RMB849M (approx HK\$1,048M)	-14.1%	VSA	

Source: Stock Exchange

Note:

- The valuation is ranged from US\$237 million to US\$257 million. The higher appraised value is ranged from a discount from 4.3% to a discount of 11.7%. The higher discount rate of 11.7% is selected for statistics purposes of Comparable Acquisition.
- Chinese People Holdings Company Limited, Yuexiu Transport Infrastructure Limited, Jiangsu Expressway Co Ltd and Apollo Solar Energy Technology Holdings Ltd are considered to be outliers in terms of the respective discount/premium of consideration to valuation amount.

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As illustrated in Table 1 above, during the one-year period from 26 May 2011 to 25 May 2012, being the date of the Acquisition Agreement, the Comparable Acquisitions includes 24 listed companies on the Main Board of the Stock Exchange. The discount represented by the consideration to the valuation amount ranges from a discount of 41.3% to a premium of 58.0%. The discount of 14.1% represented by the Consideration to the Valuation lies within the range of those Comparable Acquisitions.

Nonetheless, it is also obvious that among the Comparable Acquisitions, Chinese People Holdings Company Limited, Yuexiu Transport Infrastructure Limited, Jiangsu Expressway Co Ltd and Apollo Solar Energy Technology Holdings Ltd are outlier in terms of the discount/premium to the valuation amount. If the relevant data of these companies are excluded, the range of premium/discount to the valuation amount of Comparable Acquisitions would be a discount of 23.6% to a premium of 4.2%. The discount of 14.1% represented by the Consideration to the Valuation also lies within the range of those Comparable Acquisitions.

It is noted that those acquired assets of Comparable Acquisitions (i) have different principal terms of their acquisition agreements; (ii) have different types of risks associated; and (iii) related to different types of assets and sectors. However, having considered that (1) none of the Comparable Acquisitions has participated in acquisition transaction in identical nature with the Proposed Acquisition; (2) none of the Comparable Acquisitions have participated in acquisition transaction in similar nature with the Proposed Acquisition; (3) no acquisition target has been found to be identical business nature and operation status as on the Target Group; and (4) those acquired assets of Comparable Acquisition are evaluated with the prevailing market conditions with the one-year review period as abovementioned, we are of the view that the evaluation of the acquired asset prices are believed to be rational and reasonable.

Our view

Based on our review of the Valuation, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodologies adopted and the bases and the assumptions by the Valuer in arriving at the Valuation.

Given that (i) the Consideration has been determined after arm's length negotiations between the relevant parties; (ii) we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodologies adopted as well as the bases and the assumptions applied by the Valuer in arriving at the Valuation; and (iii) the discount represented by the Consideration to the Valuation lies within the range of those of the Comparable Acquisitions; (iv) the terms of the Acquisition Agreement; and (v) the expertise of the Valuer, we considered that the Valuation performed is fair and the assumptions adopted in the valuation is complete, fair and reasonable.

4.2 Settlement methods of the Consideration

The Consideration of HK\$900 million shall be satisfied (i) as HK\$50 million payable by the Purchaser to the Vendor in cash upon Completion; (ii) as to HK\$150 million settled by way of Promissory Note issued by the Purchaser to the Vendor on Completion; and (iii) as to 700 million by way of procuring the Company to issue the Convertible Note to the Vendor upon Completion.

We noted from the Board Letter that the cash portion, representing approximately 5.6% of the Consideration, will be financed by internal resources of the Group.

Approximately 16.7% and 77.8% of the Consideration will be satisfied by the issue of Promissory Note and Convertible Note, respectively. The Promissory Note will mature in two years from the date of issue of the Promissory Note whereas the Convertible Note will mature on the third anniversary of the date of issue of the Convertible Note. Moreover, the Convertible Note is non-redeemable prior to the maturity date. For further information about the principal terms of the Promissory Note and the Convertible Note, please refer to the Board Letter.

Accordingly to the section headed “Plan for the Settlement of the Promissory Note and Convertible Note” of the Board Letter, the Company has no immediate funding needs to settle the Promissory Note and Convertible Note due to (i) the Company has no intention to settle to Promissory Note and Convertible Note before their respective date; (ii) sufficient cash flow to repay the principal and accrued interests of Promissory Note which will be repayable at the last day of the 24th month from the date of issuance and will be funded by the revenue generated from the villas upon completion of the first phase of construction in the third quarter of 2013; and (iii) sufficient cash flow generated upon full operation of all villas in the third quarter of 2014 to settle the Convertible Note in case of non-wholly conversion of Convertible Note on the third anniversary from the date of issuance.

Having considered that (1) both of the Promissory Note and Convertible Note allow the Group to reduce its immediate cash outlay in connection with the Proposed Acquisition; (2) the Group will only incur interest expense on the Promissory Note at the best lending rate of The Hongkong and Shanghai Banking Corporation Limited on the full amount of the Promissory Note and the Convertible Note will be non-interest bearing; (3) there will be no immediate effect on the shareholding structure of the Company; (4) in the event that holders of the Convertible Notes converts the Convertible Notes, the issuance of the Convertible Notes would not only enable the Group to reduce the immediate cash outlay required for the Proposed Acquisition but also increase the Company’s equity base; and (5) no immediate funding needs to settle Promissory Note and Convertible Note, we are of the view that the settlement method of the Consideration is fair and reasonable and in the interest of the Company and Independent Shareholders as a whole.

4.2.1 Issue of the Promissory Note

As part of the Consideration payable for the Proposed Acquisition, the Company will issue the Promissory Note in the amount of HK\$150 million to the Vendors upon Completion. Set out below is the major terms of the Promissory Note extracted from the Board Letter.

Issuer	The Purchaser
Principal amount	HK\$150 million
Date of issue	The Completion Date
Interest	The Promissory Note shall bear interest from the date of the issue at the best lending rate of The Hongkong and Shanghai Banking Corporation Limited (being 5% per annum as at the Latest Practicable Date) on the full amount of the Promissory Note, which subject to provided herein, shall be payable by the Purchaser in arrears on the Repayment Date
Repayment Date	The date falling on the last day of the 24th month from the date of issue of the Promissory Note
Early repayment	The Purchaser could, at its discretion, repay the Promissory Note in whole or in part prior to the Repayment Date. There will not be any premium over or discount to the payment obligations under the Promissory Note for any early repayment

Comparison with other promissory note issues

In order to further assess the fairness and reasonableness of the Promissory Note with respect to maturity and interest rate, we have conducted a search, on a best effort basis, on all issues of promissory notes in relation to (i) acquisitions by listed companies in Hong Kong involving the issue of promissory note as all or part of the consideration; and (ii) issuance of promissory note by listed issuers on the Main Board of the Stock Exchange in the past 180 days since 27 November 2011, being the date of the Acquisition Agreement (the “PN Comparables”). The purpose of the PN Comparables is to provide reference on the recent market practice in determining the interest rate of the promissory note. Given that determination of interest rate is primarily affected by market sentiment as well as the overall stock market environment which are ever-changing, we have chosen the transactions as aforesaid during the 180-day period before the Acquisition Agreement in order to present the most recent market practice in determining the interest rate and term to maturity and compare the same with the interest rate of the Promissory Note. During the 180-day review period, important events such as the European sovereign-debt crisis and the downgrade of credit rating of France,

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Austria, Portugal, Italy, Greece, and Spain happened to give severe impacts to global stock markets, including the Hong Kong stock market. Under such situation, we are of the view that the length of period is appropriate as such events would have given the market an opportunity to re-evaluate the fairness of the interest rates, and to investigate the risk factors underneath. As such, the evaluation of interest rates is believed to be rational and representative within the period. We are generally of the view that the PN Comparables, which are issues of promissory notes within 180 days immediately prior to the date of the Acquisition Agreement, are able to reflect the prevailing market conditions and provide a relevant and appropriate reference for our analysis of the terms of the Promissory Note.

Shareholders should note that (i) the business, operation and prospects of the Company are not the same as the issuers of the PN Comparables and we have not conducted any in-depth investigation into the business and operations of the issuers of the PN Comparables, and (ii) the principal terms of the promissory note issuance (i.e., principal amount, term to maturity and annual interest rate) should be considered in whole rather than in isolation. To the best of our knowledge, effort and endeavor and based on our search conducted according to the abovementioned criteria, we consider that the list of PN Comparables is an exhaustive list of those fair and representative comparables for comparison purpose. Key findings on the principal terms of the PN Comparable are summarized in table below.

Table 2: Information on PN Comparables

	Date of announcement	Company (stock code)	Sector	Market capitalization as at the Last Trading Day (HK\$ million)	Principal amount (HK\$ million)	Maturity (years)	Annual interest rate (%)
1	2 December 2011	Pacific Plywood Holdings Ltd (00767) (note 1)	Financials	105	250	1.25	10%
2	7 December 2011	China Environment Resources Group Ltd (01130)	Material	125	168	3	2.5%
3	28 December 2011	North Mining Shares Co Ltd (00433)	Material	3,640	500	5	4% (note 2)
4	30 December 2011	Sino Prosper State Gold Resources Holdings Ltd (00766) (note 3)	Gold & precious metal	302	245	5	0.15%
5	10 January 2012	Sino Union Energy Investment Group Ltd (00346)	Energy	4,312	184	0.5	0%
6	13 January 2012	China Renji Medical Group Ltd (00648) (note 3)	Medical	812	180	2	5%
7	31 January 2012	China Ocean Shipbuilding Industry Group Ltd (00651)	Shipbuilding	271	95	2	3%
8	1 February 2012	CCT Tech International Ltd (00261)	IT hardware	654	67	5	3%
9	2 February 2012	China Ting Group Holdings Ltd (00398) (note 3)	Consumer goods	975	78	4.5	5.25%
10	2 February 2012	China Ting Group Holdings Ltd (00398) (note 3)	Consumer goods	975	16	1.5	5.25%

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	Date of announcement	Company (stock code)	Sector	Market capitalization as at the Last Trading Day (HK\$ million)	Principal amount (HK\$ million)	Maturity (years)	Annual interest rate (%)
11	14 February 2012	China Renji Medical Group Ltd (00648) <i>(note 3)</i>	Medical	812	165	3	4%
12	18 February 2012	Wynn Macau, Ltd (01128)	Hotel & casino	95,243	14,820	10	2%
13	5 March 2012	Climax International Co Ltd (00439)	Consumer goods	236	55	2	0%
14	7 March 2012	Siberian Mining Group Co Ltd (01142)	Mining	142	70	3	0%
15	16 May 2012	New Times Energy Corporation Ltd (00166)	Oil & Metal	511	10	2	3%
			Maximum	95,243	14,820	10	10%
			Minimum	105	10	0.5	0%
			Average	7,274	1,127	3.3	3.1%
			Median	654	167	3	3%
	25 May 2012	The Company	Media & Entertainment	415	150	2 years	5% <i>(note 4)</i>

Note:

1. Pacific Plywood Holdings Ltd is considered to be an outlier in terms of its annual interest rate.
2. An amount of HK\$100 million of interest will be due at maturity, equivalent to interest rate of 4% per annum (as simple interest rate). It will be excluded from the statistic of annual interest rate of PN Comparables.
3. Each of the China Ting Group Holdings Ltd, and China Renji Medical Group Ltd have two promissory note issuances during the period, resulting a total 15 promissory note issuances from 13 listed company during the period.
4. The Promissory Note bear an interest of the best lending rate of Hongkong and Shanghai Banking Corporation Limited at 5.00% as at the Latest Practicable Date.

As illustrated in Table 2 above, during the 180-day period from 27 November 2011 to 25 May 2012, being the date of the Acquisition Agreement, the PN Comparable includes 13 listed companies on the Main Board of the Stock Exchange with 15 promissory notes issued.

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Term to maturity and annual interest rates

The PN Comparables have a term to maturity ranging from about 6 months to 10 years with the principal amount issued ranging from HK\$10 million to HK\$14,820 million and have an annual interest rate of 0% to 10% per annum. The average annual interest rate of PN Comparables is 3.1%. The interest rate of 5% per annum for the Promissory Note is within the range of relevant interest rate of the promissory notes listed in Table 2 and above the median interest rate therein.

Nonetheless, it is also obvious that among the PN Comparables, the interest rate of the promissory note issued by Pacific Plywood Holdings Limited is an outlier, and if the relevant data of this company is excluded, the range of interest rate of PN Comparables would be 0% to 5.25% with average of 2.65% and median of 3%. The interest rate of the Promissory Note, as the best lending rate of Hongkong and Shanghai Banking Corporation Limited at 5% as at the Latest Practicable Date, is hence within the said market range.

We have also considered interest rates of other debts or cost of financing. The annual yield of Exchange Fund Bills and Notes with a maturity of 2 years published by the Hong Kong Monetary Authority dated July 2012 is about 0.17%. Any corporate raising two-year financing will have to pay a premium over the annual yield offered by Exchange Fund Bills and Notes with a two-year remaining maturity. We also noticed that the prime rates offered by local banks are around 5% per annum. As advised by the Company, the Company has no outstanding loan or borrowing and we therefore have no information of the Group's borrowing rate for comparing the interest rate of Promissory Note. As advised by the Valuer, the estimated cost of debt based on the prime rate or borrowing cost of the Company is around 10.8%, which is higher than the interest rate of the Promissory Note. Having considered that the interest rate of the Promissory Note is in line with the prime interest rate offered in the local financial market, we are of the view that interest rate of the Promissory Note is fair and reasonable.

Market capitalization and principal amount of PN Comparables

Shareholders should note that the issuers of promissory notes in Table 2 are from different industries with market capitalization varying from HK\$105 million to HK\$95,243 million, and operate with different business models and dynamics, hence differs in company specific risks, which in turn affect the terms of the promissory notes acceptable to holders of the promissory notes. As such, they may not be directly comparable to the Company, but in our view still offer a good reference.

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Our view

The Promissory Note also allows the Company to reduce its immediate cash outlay in connection with the Proposed Acquisition pending future re-financing either in part or in whole by the Company on any day prior to the Repayment Date if the Company raises new funds in equity or long term debt without incurring any penalty payments.

Having considered all of the above factors, in particular, (i) the interest rate accruing to the Promissory Note is within the range of the market comparables in the past 180-day review period, (ii) the annual yield of Exchange Fund Bill and Notes within 2 years maturity of about 0.19%; and (iii) the prevailing prime rate of local banks of approximately 5% per annum, we consider the interest rate of the Promissory Note fair and reasonable.

4.2.2 Issue of the Convertible Note

Pursuant to the Acquisition Agreement, a substantial portion of the Consideration, being approximately HK\$700 million will be satisfied by the issue of the Convertible Note. Set out below is the major terms of the Convertible Note extracted from the Board Letter:

Issuer	The Company
Noteholder	The Vendor
Principal amount	RMB569 million (equivalent to approximately HK\$700 million), which amount will not be subject to any change notwithstanding variation in the conversion rate between HK\$ and RMB.
Interest	Zero coupon convertible note
Date of issue	Completion date
Maturity date	Subject to terms and conditions of the Convertible Note, the Maturity shall fall on the third anniversary from the date of issue of the Convertible Note.

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Conversion rights	Provided that any conversion of the Convertible Note does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Noteholder who exercises the Conversion Rights, whether or not such mandatory offer obligation is triggered by the fact that the number of Conversion Shares to be allotted and issued following the exercise of the Conversion Rights attaching to Convertible Note and, if applicable, together with any Shares already owned or agreed to be acquired by the Noteholder or parties acting in concert with it, represents 30% or more (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code; and any conversion of the Convertible Note will not result in an insufficient public float for the Company under the Listing Rules, the Noteholder shall have the right on any Business Day during the Conversion Period to convert the whole or part of such principal amount of the Convertible Note set out therein into Conversion Shares at the Conversion Price, other than the part of the Convertible Note which has been called for redemption before the Maturity Date of the Convertible Note.
Conversion Price	The initial Conversion Price will be HK\$0.10 per Conversion Share (equivalent to approximately RMB0.0813 per Conversion Share at the fixed conversion rate of RMB1.00 equal to HK\$1.2302) subject to adjustment provisions customary for convertible securities of a similar type. The adjustment events will arise as a result of certain changes in the share capital of the Company including consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company at substantial discount to market value. The Company shall issue an announcement in the event that there are any changes in the initial Conversion Price (and any subsequent changes in the conversion price of the Convertible Note) in the future to comply with the relevant requirements under the Listing Rules.

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Conversion Shares 7,000 million new Shares to be issued upon full conversion of the Convertible Note on the basis of the Principal Amount and initial Conversion Price subject to adjustment.

When allotted and issued, the Conversion Shares will represent approximately 154.2% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 60.7% of the issued share capital of the Company as enlarged by the allotment and issue of Conversion Shares.

Redemption The Noteholder is not permitted to require redemption of the Convertible Note before the Maturity Date unless an event of default shall have occurred and the Noteholder shall have given a duly completed and signed notice of redemption, together with the Convertible Note Certificate to the Company not later than 60 calendar days following the occurrence of an event of default specifying the date of redemption and the amount proposed to be redeemed.

Events of default for early redemption includes the following:

- (a) the Company defaults in making payment of any principal, redemption or other amount due in respect of the Convertible Note and such default continues for more than fourteen (14) Business Days;
- (b) the Company fails to deliver any Shares as and when such Shares are required to be delivered following conversion of the Convertible Note and such failure continues for more than fourteen (14) Business Days;
- (c) the Company defaults in performance or observance or compliance with any material obligations set out in the Convertible Note Conditions or any of its material representations, warranties or covenants is breached which default or breach is incapable of remedy or, if capable of remedy, is not remedied within fourteen (14) Business Days after notice of the occurrence of such default or breach from the Convertible Noteholder to the Company; or

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- (d) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any material part of the undertaking, property, assets or revenues of the Company which is not dismissed or discharged or settled within sixty (60) Business Days; or
- (e) the Company becomes insolvent or is unable to pay its debts as they fall due or applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of the Company the whole or any material part of the undertaking, property, assets or revenues of the Company which is not dismissed or discharged or settled within sixty (60) Business Days or takes any proceeding under any law for a readjustment or deferment of its obligations or any part of them or makes or enters into a general assignment or compromise with or for the benefit of its creditors or initiates or consents to proceedings relating to itself under any applicable bankruptcy or insolvency law relating to the insolvency or inability to repay debts of the Company; or
- (f) a moratorium is agreed or declared in respect of any indebtedness of the Company of material effect or any governmental authority or agency seizes all or a material part of the assets of the Company; or
- (g) the voluntary delisting of the Shares (as a class) on the Stock Exchange.

Transferability	The Convertible Note may be assignable or transferable provided that the Convertible Note may not be transferred to any connected person of the Company.
Ranking	The Conversion Shares, when allotted and issued, will rank <i>pari passu</i> in all respects with all existing Shares in issue on the date of allotment and issue of such Conversion Shares. There shall be no restriction for subsequent sale of the Conversion Shares.
Voting rights	The Noteholder will not be entitled to attend or vote at any general meetings of the Company by reason only of it being the Noteholder.

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Application for listing	No application will be made by the Company to the Listing Committee for the listing of the Convertible Note. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
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As set out in the Board Letter, the Convertible Note, including the Conversion Price, has been negotiated on an arm's length basis and its principal terms have been set out in the Board Letter.

Comparison of initial Conversion Price with prevailing Share price

The Conversion Shares will be issued at not less than HK\$0.10 per Share which represents:

- a premium of approximately 8.70% to the closing price of HK\$0.092 per Share as quoted on the Stock Exchange on 25 May 2012, being the last trading date of the Shares on the Stock Exchange before the issue of the Announcement (the "Last Trading Date");
- a premium of approximately 11.86% over the average closing price of HK\$0.0894 per Share for the last five trading days up to and including the Last Trading Date;
- a premium of approximately 12.36% over the average closing price of HK\$0.089 per Share for the last ten trading days up to and including the Last Trading Date; and
- a premium of approximately 21.95% over the closing price of HK\$0.082 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As set out in the Board Letter, the initial Conversion Price was arrived at after arm's length negotiation between the parties to the Acquisition Agreement after taking into account, among others, the prevailing market price of Shares, the financial performance of the Group and the current market conditions.

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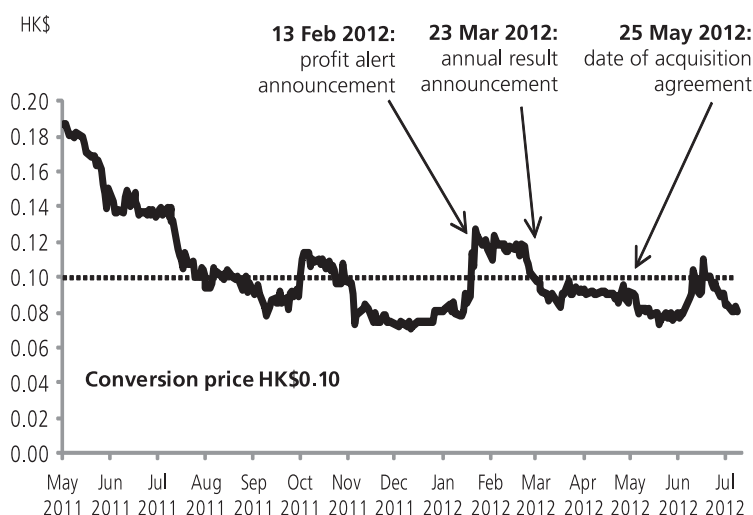
In order to assess the fairness and reasonableness of the initial Conversion Price, we set out the following information analysis for illustrative purposes:

Review of historical Share prices

The chart below set out the daily closing price of the Shares as quoted on the Stock Exchange for the 12 months period prior the date of the Acquisition Agreement commencing 26 May 2011 up to and including the Latest Practicable Date (the “Share Price Review Period”):

Illustration 5a: Daily closing Share price

Media China Corporation Limited (stock code 00419)



Source: Stock Exchange website

During the Share Price Review Period, the daily closing prices of the Shares ranged from HK\$0.071 to HK\$0.187 per Share with an average daily trading volume of approximately 2,919,000 Shares. The Conversion Price lies within this range. The average closing price of the Shares for the Share Price Review Period was approximately HK\$0.103 per Share, higher than the Conversion Price of the Conversion Shares of HK\$0.1 per Shares. As at the Latest Practicable Date, the Share price closed at HK\$0.082.

We noticed that the Share price had been moving downward persistently from May 2011 onward until February 2012. The Share price increased approximately 27% from HK\$0.089 on 13 February 2012 to HK\$0.113 on 14 February 2012, being the next trading date following the announcement of profit alert for the year ended 31 December 2011. On 23 March 2012, the Company announced its annual result for the year ended 31 December 2011 and the Group's net loss for the year ended 31 December 2011 of HK\$17.6 million was reduced by approximately 96% from net loss of HK\$483.6 million for the same period last

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year. We further noted that the closing market prices of the Shares gradually dropped by approximately 19.61% from HK\$0.102 on 23 March 2012 to HK\$0.082 as at the Latest Practicable Date.

Comparison with other convertible securities issues

In order to assess the fairness and reasonableness the Convertible Note with respect to term to maturity, interest/coupon rate, and conversion prices, we have conducted a search, on the best effort basis, on all issuers of convertible notes in relation to (i) acquisitions by listed companies in Hong Kong involving the issue of convertible securities as all or part of the consideration; and (ii) issuance of convertible securities by issuers listed on the Main Board of the Stock Exchange in the past 180 days since 27 November 2011, being the date of the Acquisition Agreement (the “CN Comparables”). The purpose of the CN Comparables is to provide reference on the recent market practice in determining term to maturity, interest/coupon rate, and conversion price of the convertible securities. Given that the determination of interest/coupon rate and conversion price are affected by market sentiment as well as the overall stock market environment which are ever-changing, we have chosen the transactions as aforesaid during the 180-day period before the Acquisition Agreement in order to present the most recent market practice in determining the interest/coupon rate and conversion price and compare the same with the interest rate and conversion price of the Convertible Note. We are generally of the view that the CN Comparables, which are issues of convertible securities within 180 days immediately prior to the date of the Acquisition Agreement, are able to reflect the prevailing market conditions and provide a relevant and appropriate reference for our analysis of the terms of the Convertible Note.

We have also considered limiting the sample of comparable to companies that are engaged in similar business as the Target Group. But having considered that (i) the conversion price per share of convertible securities are generally determined with reference to a discount or premium to recent market price of the shares and (ii) the magnitude of the discount or premium do not appear to have a strong correlation with the industry sector and there is no established “industry norm” for a particular industry sector, we are of the view that limiting the sample of comparable using the aforementioned approach would not be meaningful within the scope of our analysis. As the CN Comparables reflect the recent trend of convertible bonds or instruments in the market, we are of the view that the Comparables are collectively a fair and representative sample.

Shareholders should note that (i) the business, operation and prospects of the Company are not the same as the issuers of the CN Comparables and we have not conducted any in-depth investigation into the business and operations of the issuers of the CN Comparables, (ii) the principal terms of the convertible securities issuance (i.e., principal amount, term to maturity, interest/coupon rate, and conversion price) should be considered in whole rather than in isolation. To the best of our knowledge, effort and endeavor and based on our search conducted according to the abovementioned criteria, we consider that the list of CN Comparables is an exhaustive list of those fair and representative comparables for comparison purpose. Key findings on the principal terms of the CN Comparables are summarized in table below.

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Table 3: Information on CN Comparables

									Approximate premium/ (discount) of conversion price to the average closing share price of the last trading days up to and including the last trading day
	Date of announcement	Company (stock code)	Sector	Market Cap as at the last trading day (HK\$ million)	Principal amount (HK\$ million)	Term to Maturity	Coupon Rate (% per annum)	Initial Conversion Price (HK\$)	(%)
1	28 November 2011	China XLX Fertiliser Ltd (01866)	Materials	1,950	397	5	4.5%	2.25	6.34%
2	1 December 2011	Hilong Holdings Ltd (01623) (note 3)	Energy	2,461	233	3	3.5%	2.4	67.83%
3	1 December 2011	Hop Hing Group Holdings Ltd (00047)	Food & beverage	223	3,475	Perpetual (note 1)	3.5%	0.37	-15.90%
4	2 December 2011	Pacific Plywood Holdings Ltd (00767)	Financials	105	33	1	0%	0.025	-24.24%
5	6 December 2011	New Environmental Energy Holdings Ltd (03989)	Renewable energy	419	100	3	0%	0.40	14.29%
6	12 December 2011	Wah Nam International Holdings Ltd (00159) (note 2)	Transportation	2,560	174	2	5%	0.60	-10.40%
7	13 December 2011	Interchina Holdings Co Ltd (00202)	Utilities	2,403	295	3	2%	0.31	-18.42%
8	19 December 2011	Kai Yuan Holdings Ltd (01215)	Utilities	2,171	280	2	3.5%	0.15	-3.23%
9	21 December 2011	China Fortune Financial Group Ltd (00290)	Financials	307	40	3	12%	0.20	24.20%
10	22 December 2011	Culture Landmark Investment Ltd (00674)	Conglomerates	826	75	1	12%	0.80	5.26%
11	3 January 2012	Sino Prosper State Gold Resources Holdings Ltd (00766) (note 3)	Gold	302	282	5	0%	0.15	76.47%
12	10 January 2012	Karce International Holdings Co Ltd (01159) (note 2 & 3)	Consumer goods	105	1,373	3	0%	0.50	242.47%
13	10 January 2012	Karce International Holdings Co Ltd (01159) (note 2 & 3)	Consumer goods	105	26,083	3	0%	1.00	584.93%
14	12 January 2012	CVM Minerals Ltd	Metal & minerals	334	106	5	5%	0.125	5.00%
15	17 January 2012	Chiho Tiande Group Ltd (00976)	Metal & minerals	4,236	815	3	4%	6.00	51.90%
16	19 January 2012	Li Ning Co Ltd (02331)	Consumer goods	6,324	923	5	4%	7.74	15.20%
17	20 January 2012	Hong Long Holdings Ltd (01383)	Properties	336	30	1	1%	0.1228	-11.01%
18	26 January 2012	OPES Asia Development Ltd (00810)	Financial	92	75	3	3%	0.36	1.41%
19	27 January 2012	China Properties Group Ltd (01838)	Properties	4,522	500	3	5%	2.42	1.26%
20	31 January 2012	China Ocean Shipbuilding Industry Group Ltd (00651)	Shipbuilding	271	105	3	3%	0.15	30.43%
21	16 February 2012	China Environmental Resources Group Ltd (01130)	Materials	125	20	1	2%	0.10	26.58%

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									Approximate premium/ (discount) of conversion price to the average closing share price of the last trading days up to
	Date of announcement	Company (stock code)	Sector	Market Cap as at the last trading day (HK\$ million)	Principal amount (HK\$ million)	Term to Maturity	Coupon Rate (% per annum)	Initial Conversion Price (HK\$)	and including the last trading day (%)
22	23 February 2012	Smart Union Group (Holdings) Ltd (02700)	Consumer goods	311	30	3	0%	0.50	42.86%
23	29 February 2012	One Media Group Ltd (00426) (note 3)	Media & Entertainment	170	76	3	1%	0.90	111.8%
24	2 March 2012	Pacific Century Premium Development Limited (00432)	Properties	2,896	2,904	5	5.5%	1.64	19.70%
25	6 March 2012	Wah Nam International Holdings Limited (00159) (note 2)	Transportation	2,560	78	3	12%	0.60	15.40%
26	7 March 2012	Siberian Mining Group Company Limited (01142)	Mining	142	546	3	3%	0.52	0.00%
27	14 March 2012	361 Degree International Limited (01361)	Garment	3,990	1,170	5	4.5%	3.81	27.40%
28	14 March 2012	China Overseas Grand Oceans Group Ltd (00081)	Properties	13,997	2,200	5	2%	12.532	30.00%
29	21 March 2012	China Hongqiao Group Ltd (01378)	Industrial goods	20,950	1,170	5	6.5%	7.27	25.00%
30	23 March 2012	Silver Grant International Industries Ltd (00171)	Financials	3480	776	5	5%	1.41	35.58%
31	29 March 2012	Sinocop Resources (Holdings) Ltd (00476)	Mining	969	2,910	10	0%	0.75	-3.80%
32	31 March 2012	Tse Sui Leun Jewellery (International) Limited (00417)	Consumer goods	1,219	250	5	5%	6.40	4.23%
33	12 April 2012	China Billion Resources Ltd (00274)	Health care	455	50	1	0%	0.10	14.91%
34	19 April 2012	The Hongkong Building and Loan Agency Limited (00145)	Financials	117	32	3	10%	0.4	-7.00%
35	23 April 2012	RCG Holdings Limited (00802)	Information technology	325	89	3	2%	0.85	-5.56%
36	26 April 2012	Starlight International Holdings Ltd. (00485)	Consumer goods	191	36	1.5	1.5%	0.104	4%
37	27 April 2012	China Rufeng Galaxy Renewable Energy Holdings Ltd (00527)	Renewable energy	1,646	776	5	8%	1.50	-35.50%
38	30 April 2012	Luen Thai Holdings Ltd (00311)	Garment	1,046	36	2	6.5%	1.20	10.10%
39	3 May 2012	Xinyi Glass Holdings Limited (00868)	Automobile	16,439	776	5	4%	6.00	19.80%
40	10 May 2012	China Tianyi Holdings Limited (00756)	Food & beverage	1,667	233	3	4%	1.89	33.10%

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									Approximate premium/ (discount) of conversion price to the average closing share price of the last trading days up to
	Date of announcement	Company (stock code)	Sector	Market Cap as at the last trading day (HK\$ million)	Principal amount (HK\$ million)	Term to Maturity	Coupon Rate (% per annum)	Initial Conversion Price (HK\$)	and including the last trading day (%)
41	16 May 2012	New Times Energy Corporation Ltd (00166)	Oil & Metal	511	81	2	0%	0.85	-4.5%
42	21 May 2012	Jiangchen International Holdings Limited (01069) (note 2)	Textiles & clothing	440	21	3	0%	0.81	-18.20%
43	22 May 2012	Jiangchen International Holdings Limited (01069) (note 2)	Textiles & clothing	440	39	3	0%	0.81	-18.20%
			Maximum	20,950	26,083	10	12%		584.93%
			Minimum	92	20	1	0%		-35.50%
			Average	2,426	1,156	3.4	3.5%		31.90%
			Median	511	233	3	3.5%		10.10%
	25 May 2012	The Company	Media & entertainment	415	700	3	0%	0.10	8.70%

Source: Stock Exchange

Note:

1. Excluded from the statistics of maturity.
2. Each of the Wah Nam International Holdings Ltd, Karce International Holdings Company Limited and Jiangchen International Holdings Limited announced two convertible securities issuance. Thus, there is 35 listed companies with a total of 37 convertible securities issuance during the period of the past 180 days prior 25 May 2012.
3. In term of the premium or discount to the closing share price of the last trading day, Hilong Holdings Limited, Sino Prosper State Gold Resources Holdings Limited, Karce International Holdings Company Limited, and One Media Group Limited are considered to be outliers.

As illustrated in Table 3 above, during the 180-day period from 27 November 2011 to 25 May 2012, being the date of the Acquisition Agreement, the CN Comparables include 40 listed companies on the Main Board of the Stock Exchange with 43 convertible securities issued.

Conversion price

The conversion prices of the CN Comparables ranged from a discount of approximately 35.50% to a premium of approximately 584.93% to/over the closing prices of their shares on the last trading days prior to the date of the relevant agreements or release of the announcements in relation to the issue of the respective convertible bonds/notes.

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Nonetheless, it is also obvious that among the CN Comparables, convertible securities issued by Hilong Holdings Ltd, Karce International Holdings Company Ltd., One Media Group Limited and Sino Prosper State Gold Resources Holding Limited are outliers, and if the relevant data of these companies are excluded, the range of discount/premium represented by the conversion prices of the CN Comparables would become a discount of approximately 35.50% to a premium of 51.90% with an average of a premium of 7.58% and a median of a premium of 5.13%. The Conversion Price, which represents a premium of approximately 8.70% to the closing price of the Shares on the Last Trading Day, is hence within the said market range and close to the average.

The results of the market comparisons as detailed above are for reference only and given that the Conversion Price is within the range of closing prices of the Shares during the Share Price Review Period, we are of the view that the Initial Conversion Price is fair and reasonable as far as Independent Shareholders are concerned.

Coupon rate/annual distribution

The interest rates of the CN Comparables ranged from 0% to 12% and the distribution rate of the Convertible Note of 0% is within the market range of the CN Comparables.

Given the Convertible Note bear no coupon, the Company is not required to service the Convertible Note in terms of incurring interest payments to the holders of the Convertible Note, forms part of the Consideration. The Convertible Note also allows the Company to reduce its immediate cash outlay in connection with the Proposed Acquisition pending future re-financing either in part or in whole by the Company on any day prior to the Repayment Date if the Company raises new funds in equity or long term debt without incurring any penalty payments.

Term to maturity

The term of the CN Comparables ranged from 1 year to 10 years and the term of the Convertible Note of 3 years is within the market range of the CN Comparables.

Market capitalization and principal amount of CN Comparables

Shareholders should note that the issuers of convertible note in Table 3 are from different industries with market capitalization varying from HK\$92 million to HK\$20,950 million, and operate with different business models and dynamics, hence differs in company specific risks, which in turn affect the terms of the convertible notes acceptable to holders of the convertible note. As such, they may not be directly comparable to the Company, but in our view still offer a good reference.

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Our View

In the event that holder of the Convertible Note converts the Convertible Note, the issuance of the Convertible Note would not only enable the Group to reduce the immediate cash outlay required for the Proposed Acquisition but also increase the Company's equity base.

Given the factors as set out above, the long term tenure and zero service cost of the Convertible Note, the flexibility of financing, the initial Conversion Price close to the average closing price during the Share Price Review Period and among other things, we consider the terms of the Acquisition Agreement, to be commercially acceptable, fair and reasonable and in the interest of the Company.

5. Possible dilution effect on the shareholding interests of the existing public Shareholders

The table below demonstrates the possible shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the issue of the maximum consideration Shares of 100,000,000 for the acquisition made by the Company on 26 January 2011; (iii) immediately upon the exercise of the subscription rights attaching to the Warrants which are still outstanding as at the Latest Practicable Date; (iv) immediately upon Completion and assuming conversion of the Convertible Note to the extent that the Noteholder holds or controls not more than 29.9% of the issued share capital of the Company; and (v) immediately upon Completion and assuming full conversion of the Convertible Note.

	As at the Latest Practicable Date		Immediately after the issue of the maximum consideration Shares of 100,000,000 for the acquisition made by the Company on 22 February 2011		Immediately upon the exercise of the subscription rights attaching to the Warrants which are still outstanding as at the Latest Practicable Date		Immediately upon Completion and assuming conversion of the Convertible Note to the extent that the Noteholder holds or controls 29.9% of the issued share capital of the Company and public float of not less than 25%		Immediately upon Completion and assuming full conversion of the Convertible Note (Note 5)	
	Approx No. of Shares	Approx %	Approx No. of Shares	Approx %	Approx No. of Shares	Approx %	Approx No. of Shares	Approx %	Approx No. of Shares	Approx %
Sun Hung Kai Investment Services Limited (Note 1)	827,435,214	18.23	827,435,214	17.84	827,435,214	16.01	827,435,214	13.27	827,435,214	6.80
YUEN Hoi Po (Note 2) & the Vendor (Note 3)	798,150,000	17.58	798,150,000	17.20	798,150,000	15.44	1,864,017,642	29.90	7,798,150,000	64.08
He Peng (Note 4)	200,000,000	4.41	300,000,000	6.47	300,000,000	5.80	300,000,000	4.81	300,000,000	2.47
Placees for the subscription of the outstanding Warrants	—	—	—	—	530,000,000	10.25	530,000,000	8.50	530,000,000	4.35
Public Shareholders	2,713,594,239	59.78	2,713,597,239	58.49	2,713,594,239	52.50	2,713,594,239	43.52	2,713,594,239	22.30
Total	4,539,179,453	100.00	4,539,179,453	100.00	5,169,179,453	100.00	6,235,047,095	100.00	12,169,179,453	100.00

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Notes:

1. Sun Hung Kai Investment Services Limited is a wholly-owned subsidiary of Sun Hung Kai Securities Limited, a wholly-owned subsidiary of Sun Hung Kai & Co. Limited, which in turn is a non wholly-owned subsidiary of Allied Properties (H.K.) Limited. Allied Properties (H.K.) Limited is a non wholly-owned subsidiary of Allied Group Limited in which Mr. LEE Seng Hui, Ms. LEE Su Hwei and Mr. LEE Seng Huang are the trustees of the Lee and Lee Trust, having 63.87% interest in Allied Group Limited as at 20 June 2012. Accordingly, Mr. LEE Seng Hui, Ms. LEE Su Hwei and Mr. LEE Seng Huang, they are deemed to have the same long position as Sun Hung Kai Investment Services Limited.
2. Rich Public Limited is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned by Ming Bang Limited. Ming Bang Limited is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned by Mr. Yuen. Mr. Yuen is therefore deemed to be interested in 798,150,000 Shares held by Ming Bang Limited and Rich Public Limited. Mr. Yuen is also a director of Ming Bang Limited.
3. The Vendor's entire issued share capital is owned by Mr. Yuen and by virtue of Part XV of the SFO, Mr. Yuen is deemed to be interested in the Shares held by the Vendor. Mr. Yuen is also a director of the Vendor.
4. Mr. HE Peng entered into a conditional sale and purchase agreement dated 26 January 2011 with Unique Talent Group Limited, a wholly owned subsidiary of the Company, as purchaser and the Company as the purchaser's guarantor. Pursuant to the sale and purchase agreement, 200,000,000 shares have been issued by the Company to Mr. HE Peng on 28 July 2011, and 100,000,000 shares will be issued by the Company to Mr. HE Peng upon fulfillment of the unconditional and irrevocable indemnity.
5. It is provided in the conditions of the Convertible Note that the relevant holder of the Convertible Note is only allowed to exercise the Conversion Rights only to the extent that (i) any conversion of the Convertible Note does not render the relevant holder of the Convertible Note who exercises the Conversion Rights and parties acting in concert with such holder to hold (whether directly or indirectly), together with any Shares already owned or agreed to be acquired by such holder of Convertible Note and parties acting in concert Shares representing 30% or more of the consequential enlarged issued ordinary share capital of the Company and (ii) any conversion of the Convertible Note will not lead to the public float being less than 25% of the consequential enlarged issued ordinary share capital of the Company at the date of the relevant exercise. Accordingly, the figures shown in this column are for illustration purposes only.

Upon exercise, the 7,000 million Conversion Shares represent:

- (i) approximately 154.2% of the existing share capital of the Company; and
- (ii) approximately 60.7% of the share capital of the Company as enlarged by the conversion of the Convertible Note.

As illustrated in table above, upon the full conversion of the Convertible Note, the shareholding interests of the existing public Shareholders will be diluted from approximately 59.78% to approximately 22.30% of the enlarged issued share capital of the Company. The shareholding interests of the public Shareholders and the existing public Shareholders in the Company would be diluted by approximately 16.26 percent point and 37.48 percent point respectively as a result of the issue and conversion of the Convertible Note with the public float restriction.

Taking into account (i) the reasons for and the possible benefits of the Proposed Acquisition to the Group as abovementioned; (ii) approximately 77.8% of the Consideration under the Acquisition Agreement will satisfied by way of issue of Convertible Note which enables the Group to finance a significant portion of the Consideration and at the same time limit the amount of

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immediate cash outlay of the Group; (iii) the issue of new Shares will strengthen the capital base of the Company; (iv) the Proposed Acquisition would provide an opportunity for the Group to broaden its source of income; and (v) the terms of the Acquisition Agreement and the Convertible Notes being fair and reasonable, we consider the issuance of Convertible Note with the aforementioned potential dilution effect to be acceptable in this regard.

6. The possible financial effects of the Proposed Acquisition on the group

Since Completion, the Target Group will be treated as a subsidiary of the Company and will be accounted for in the consolidated financial statements of the Group.

Earnings

Taking into account the future prospects of the Target Group, the Directors expected that the Acquisition would likely to be a positive impact on the future earnings of the Enlarged Group as the Company will be able to fully consolidate the financial results of the Target Group into its consolidated financial statements upon Completion.

Based on the unaudited pro forma consolidated income statement of the Enlarged Group set out in Appendix III to the Circular and assuming completion of the Proposed Acquisition had taken place on 1 January 2011, as a result of the Completion, (a) the total revenue would be remained unchanged due to no operation of the Target Group as at 31 December 2011; and (b) the net profit attributable to the Shareholders would be decreased from net loss of approximately HK\$17.8 million to net loss of approximately HK\$129.7 million, which is mainly due to the administrative expenses of approximately HK\$43.5 million (including the non-cash intangible asset amortization of approximately HK\$28.8 million) and recognition of interest expenses related to the Promissory Note and Convertible Note of approximately HK\$75.6 million (most of which being notional interest accretion with no actual cash outlay).

Save as disclosed in the Board Letter, with consideration of the potential future prospects of the Target Group, the Directors are in the view that consolidating the financial results of the Target Group into the Group would have a favorable long term prospects on the Enlarged Group's earnings upon Completion.

Given that (a) the Subject Land is still at initial stage of development; (b) the recreational and tourism services business of the Group is expected to be the initial key growth engines for the Enlarged Group's operations; and (c) the Proposed Acquisition which further develop the Group's business into the recreational and tourism services sector, is expected to further improve the profitability and facilitate the sustainable development of the Company in the long run, the management of the Group expects the Proposed Acquisition to have a favorable long-term prospects on the financial results of the Enlarged Group. We concur with the view of the management of the Group based on the information provided to us by the Company.

Asset, liabilities, and capital commitment

Shareholders' attention is drawn to the financial effects as set out in the Board Letter and financial information of the Enlarged Group as set out in Appendix III to this Circular.

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Shareholders will note from the extracts referred to in the above that on a pro forma basis and assuming the completion of the Proposed Acquisition had taken place on 31 December 2011, there would be corresponding respective increase in the total assets, total liabilities, net assets as well as capital commitment by virtue of the Group taking up the capital commitment for the Proposed Project outstanding as at 31 December 2011.

As extracted from the AR2011, the audited consolidated assets and liabilities of the Group were approximately HK\$2,033.3 million and HK\$856.7 million, respectively. According to the unaudited pro forma financial information of the Enlarged Group as contained in Appendix III to the Circular, the consolidated assets and liabilities of the Enlarged Group would be increased to approximately HK\$3,246.8 million and HK\$1,748.8 million, respectively, upon Completion, as calculated based on the applicable assumptions.

Shareholders' attention is drawn to the financial effects as set out in the pro forma financial information, a total of goodwill and/or intangible assets of approximately HK\$1,261.6 million would be created as a result of the Proposed Acquisition. Upon Completion and in subsequent reporting period, valuation of such goodwill and/or intangible assets will be performed for the purpose of determining the fair value and recoverable amount of the goodwill and/or intangible assets. If any intangible assets are created as a result of the Proposed Acquisition, depending on the amortization policy of the Company, the Enlarged Group may record an increase in the amortization expenses in respect of such intangible assets.

Net asset value ("NAV")

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, assuming the Proposed Acquisition had taken place on 31 December 2011, the unaudited pro forma NAV of the Enlarged Group attributable to equity holders of the Company will be approximately HK\$1,498.0 million, representing an increase of approximately HK\$321.4 million when compare to the audited net assets attributable to equity holders of the Company as at 31 December 2011 of approximately HK\$1,176.6 million. The increase in the NAV based on the unaudited pro forma NAV of the Enlarged Group mainly arises from (i) the inclusion of the net assets of the Target Group of approximately HK\$1,261.6 million comprising mainly intangible assets, and after deducting (a) the estimated fair value of the Promissory Note as at 31 December 2011 of approximately HK\$135.1 million; (b) the liability component of the Convertible Note of approximately HK\$493.7 million; and (c) deferred tax liabilities of HK\$261.4 million. As noted above, there will not be any significant adverse impact on the NAV of the Group immediately following the Proposed Acquisition.

We noted that the audited net assets attributable to equity holders of the Company as at 31 December 2011 amounted to approximately HK\$0.26 per Share (calculated on 4,539,179,453 Shares in issue as at the Latest Practicable Date). Upon Completion and full conversion of the Convertible Note, the number of Shares in issue will increase to 12,169,179,453 Shares. On such basis, the unaudited pro forma NAV of the Enlarged Group attributable to equity holders of the Company will be approximately HK\$0.12 per Share. Having considered that the issue of the Convertible Note would enable the Group to finance

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a significant portion of the Consideration and at the time limit the amount of immediate cash outlay of the Group, we are of the view that the decrease in NAV per Share based on the unaudited pro forma financial information of the Enlarged Group as stated above is acceptable.

Working capital

As set out in the AR2011 of the Group, the Group has cash and cash equivalents of HK\$200.6 million as at 31 December 2011.

The cash portion of the Consideration is HK\$50 million, out of the total Consideration of HK\$900 million, which will become payable upon Completion. The Proposed Acquisition would lead to an immediate decrease of HK\$50 million cash outflow in the Enlarged Group's working capital position.

As such, having regard to the Group's liquidity position, the Directors are of the view that the cash outlay requirements as mentioned above would not have any material adverse impact on the Group's business.

Gearing

Based on the unaudited pro-forma financial information of the Enlarged Group as set out in Appendix III to the Circular, the gearing ratio of the Enlarged Group (calculated as total borrowings divided by total assets) would be increased from 0% for the Group as at 31 December 2011 to approximately 19.4% for the unaudited pro forma Enlarged Group mainly as a result of the issue of Promissory Note and Convertible Note.

It should be noted that the aforementioned analyses are illustrative purpose only and does not purport to represent how the financial position of the Company will be upon Completion.

In light of the above and having considered that (i) the financial effect abovementioned, (ii) the Proposed Acquisition would increase the Group's income base, and (iii) the benefits of the Proposed Acquisition to the Enlarged Group as abovementioned, we are of the view that the Proposed Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

7. Specific Mandate

As set out in the Board Letter, under the Acquisition Agreement, the Purchaser will procure the Company to issue the Convertible Note to the Vendor as part payment of the Consideration on Completion. The Conversion Shares to be issued following the exercise of the Conversion Rights shall rank *pari passu* in all respects with the Shares then in issue on the date of allotment and issue thereof. The Company will seek the grant of Specific Mandate from the Shareholders at the EGM to satisfy the allotment and issue of the Conversion Shares upon the exercise of the Conversion Rights pursuant to the Convertible Note.

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As abovementioned, we noted that the pricing of the new Shares proposed to be issued under the Specific Mandate to be fair and reasonable.

RECOMMENDATION

Having taken into account the above factors and reasons, in particular, (a) the reasons for and benefits of the Proposed Acquisition, (b) the principal terms of the Acquisition Agreement, and (c) the financial effects of the Proposed Acquisition to the Group, we are of the opinion that (i) the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Acquisition and the Specific Mandate are on the normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole, despite the Proposed Acquisition, Specific Mandate and the respective transactions contemplated thereunder are not in the ordinary and usual course of business of the company.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders in favor of the resolution(s) to be proposed at the EGM to approve the Proposed Acquisition, Specific Mandate and the respective transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favor of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Kinson Li
Managing Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the financial information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited statement of financial position together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the year ended 31 December 2011 has been set out in pages 39 to 121 of the annual report 2011 of the Company which was posted on 24 April 2012 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the annual report 2011:

<http://www.hkexnews.hk/listedco/listconews/sehk/2012/0424/LTN20120424510.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2010 has been set out in pages 39 to 143 of the annual report 2010 of the Company which was posted on 4 April 2011 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the annual report 2010:

<http://www.hkexnews.hk/listedco/listconews/sehk/2011/0404/LTN20110404971.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2009 has been set out in pages 17 to 45 of the annual report 2009 of the Company which was posted on 19 April 2010 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the annual report 2009:

<http://www.hkexnews.hk/listedco/listconews/sehk/2010/0419/LTN20100419402.pdf>

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 June 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Enlarged Group had outstanding borrowings of approximately HK\$0.7 million.

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital and overdrafts or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances (other than normal trade bills), or acceptance credits, or any guarantees or other material contingent liabilities at the close of business on 30 June 2012.

3. WORKING CAPITAL

Taking into account the expected completion of the Proposed Acquisition and the financial resources available to the Enlarged Group, including the internally generated funds and cash and cash equivalents on hands, the directors of the Company are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this Circular.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the Group's latest published audited consolidated financial statements were made up.

5. RESTRICTION ON REMITTANCE

Under the current PRC laws, dividends of PRC companies can be paid only out of the after-tax profit calculated according to PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions. Furthermore, PRC law requires foreign invested enterprises, such as its operating subsidiaries in PRC, to set aside part of their net profit as statutory reserves. The Company's PRC subsidiaries are required to set aside each year at least 10% of its after-tax profits for such year, as reported in its PRC statutory financial statements, to the statutory surplus reserve of such PRC subsidiaries. Such reserve may not be discontinued until the accumulated amount has reached 50% of the registered capital of PRC subsidiaries. These statutory reserves are not available for distribution to the Company, except in liquidation. The calculation of distributable profits under PRC Accounting Standards and Regulations differs in certain aspects from the calculation under HKFRS. As a result, the Company's subsidiaries in PRC may not be able to pay any dividend in a given year to the Company if they do not have distributable profits as determined under PRC Accounting Standards and Regulations, even if it has profits for that year as determined under HKFRS.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Set out below is the management discussion and analysis of the Group for the three years ended 31 December 2009, 2010 and 2011 as extracted from the annual reports of the Group.

MANAGEMENT DISCUSSIONS AND ANALYSIS FOR THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2009**BUSINESS REVIEW AND PROSPECTS**

The Group returned to profitability and achieved revenues of HK\$284,058,000 from continuing operations in 2009, a significant increase of 53% over 2008. Gross profit and profit from continuing operations were HK\$102,681,000 and HK\$65,994,000, respectively.

The Company completed an open offer and a share placement in December 2009 and raised net proceeds of approximately HK\$430 million. IDG Capital Partners, a well-known professional investment fund, was introduced as our strategic shareholder, and our shareholding structure and capital base were further strengthened. IDG Capital Partners possesses in-depth knowledge and extensive experience in China's media, cultural and tourist sectors and has made many successful investments in these areas.

The Group's financial and liquidity position was further improved after the open offer and share placement, providing a solid foundation for its sustainable development. As at 31 December 2009, cash and bank balances reached HK\$648,072,000, almost tripled that at the end of 2008. Net current assets amounted to HK\$508,525,000 compared to net current liabilities of HK\$175,148,000 a year earlier. Total equity amounted to HK\$1,311,705,000, an increase of 61% year-on-year.

In light of poor profitability and a weak outlook, management decided to dispose of its interest in Guangzhou ZhanShi Advertising Company Ltd. (“Guangzhou ZhanShi”) in the first half of 2009 in order to focus on developing other media businesses with growth potential. Guangzhou ZhanShi was the exclusive advertising agency for the Satellite TV Channel of the Guangdong Television. The relevant loss for the year was reported under discontinued operation and is not expected to recur since 2010.

Market Review

The Chinese economy was adversely impacted by a slowdown in exports in the first half of 2009. Nevertheless, it staged a remarkable rebound in the second half as the Chinese government introduced a series of measures to revive domestic demand and the global economy gradually picked up. China’s GDP grew by 8.7% in real terms last year. As market sentiment improved, advertisers were more willing to increase their marketing expenditures. As a result, the domestic advertising market bounced back vigorously in the second half after experiencing a period of doldrums. According to CTR Market Research, 2009 PRC media advertising expenditure soared 13.5% year-on-year to US\$74 billion. TV remained the primary medium for domestic advertisers. In 2009, more than RMB395.2 billion was spent on TV advertising, an increase of 15% over 2008 and representing 78% of total advertising expenditure in China. Toiletries, business and services, foodstuffs, beverages and pharmaceuticals were the leading sectors of advertising spending.

China’s motion picture industry also experienced astonishing growth last year. The box office revenue from cities nationwide topped RMB6.2 billion, an increase of 43% over 2008. There were 12 domestically produced movies reporting gross revenue of more than RMB100 million. The industry has entered into a new “golden age”. Meanwhile, the government has taken various measures to promote the development of the cultural industries and accelerated the restructuring of the motion picture sector. It also encouraged financial institutions to offer greater financial support to the motion picture industry.

Business Review

The television advertising segment remained the biggest revenue contributor to the Group. Its revenue totaled HK\$274,410,000 in 2009, an increase of 54% over the previous year. The growth rate was much higher than the 15% industry growth rate in TV advertising expenditure in China for 2009. Segment profit was HK\$69,442,000, which was mainly derived from the provision of media resources procurement services to international advertising agencies and direct customers, and from being the exclusive advertising agency for the Travel Channel. Revenue from the content production segment was HK\$9,648,000. The Group has redirected resources into film and TV program production, including the blockbuster “Bodyguards and Assassins” which was released at the end of last year.

Television Advertising Business

The Group provided media resources procurement services through its wholly-owned subsidiary, Guangdong Sinofocus Media Company Limited (“Sinofocus”), which was acquired in the fourth quarter of 2008. Sinofocus has extensive relationships with international advertising agencies. It helps them procure media resources from local TV stations in China and offers them one-stop solutions ranging from planning, broadcasting and monitoring of advertising to payment logistics. While maintaining strategic partnerships with international advertising agencies, Sinofocus has successfully expanded its customer base and developed business relationships with direct customers. In 2009, the media resources procurement business achieved satisfactory growth and contributed 9% of the total revenue of the

television advertising segment. This ratio is expected to rise further, thus broadening our income base. With insights into local market, Sinofocus is determined to expand its customer base to medium and large domestic clients in China by providing them with professional advertising agency services of international standards.

Another major contributor to the Group's television advertising segment was the exclusive advertising agency business for the Travel Channel. In 2009, the Travel Channel's advertising revenue increased by 41% and accounted for approximately 91% of total revenue from the television advertising segment. The significant increase was attributable to the following reasons:

- the Group's strategy of broadening advertising revenue sources by organizing nationwide reality shows and competitions, and leveraging on sponsors' promotional programs in other media;
- increased sales revenue from special sponsorship and program title sponsorship;
- extension of broadcast coverage into more second-tier cities.

Moreover, the Group managed to enter into an agreement to lower exclusive advertising agency fees for the Travel Channel in 2008 and 2009 by RMB50 million. As a result, operating costs of the Group were substantially reduced.

The Group has further strengthened cooperation with the Hainan Television Broadcasting Station ("Hainan TV") in the operation of the Travel Channel. A new joint venture formed by the Group and a wholly-owned subsidiary of Hainan TV became the exclusive advertising agent of the Travel Channel with effect from 1 January 2010. After the restructuring, each of the Group and Hainan TV effectively own approximately 50% of the economic interests in the operation of the Travel Channel. Ms. Wang Ping, the former deputy chief editor of Hunan Satellite TV, was appointed as the general manager of the joint venture and of Hai Nan Haishi Tourist Satellite TV Media Co., Ltd 海南海視旅遊衛視傳媒有限責任公司 ("Hainan Haishi"), and she is now in charge of both the operation and advertising affairs of the Travel Channel. Ms. Wang was acclaimed "The Queen of Variety Shows" in China and produced a number of popular programs, including "Music Forever", "Super Girl" and "Strictly Come Dancing". "Strictly Come Dancing" was the top-ranked variety show in China and the most widely seen program on Hunan Satellite TV in 2007. Management believes that with a stable and sustainable business structure, the quality of TV programs on the Travel Channel and its advertising sales will further improve under the helm of Ms. Wang and a seasoned management team.

Content Production Business

In 2009, the Group resumed the content production business and made its maiden investment in film production by producing "Bodyguards and Assassins". The blockbuster was released in December 2009 and received enthusiastic response in the market. Its box office revenue from Mainland China approached to RMB300 million and the response in Hong Kong, Singapore and Malaysia were also very promising. Relevant income from the movie are expected to be recorded in the consolidated financial statements for year 2010. "Bodyguards and Assassins" was directed by renowned director Teddy Chan and co-produced by Huang Jiangxin and Peter Chan. It featured an all-star line-up from Mainland China, Hong Kong and Taiwan, including Donnie Yen, Fan Bingbing, Leon Lai, Nicholas Tse and Hu Jun.

Meanwhile, the Group and Shanghai Media Group (“SMG”), a leading domestic media group, will jointly invest in the production of a TV drama called “Grandmaster”. The scripts for the domestically produced drama have almost been completed and shooting is expected to commence later in 2010. “Grandmaster” tells inspiring stories about how domestic Go (Wei Qi) players pursue their goal of becoming grandmasters. With exciting plots and unique themes, it is set to stand out in the competitive domestic TV drama market.

Besides, the Group and a group company of IDG Capital Partners have jointly invested in the production of a film called “Snow Flower and the Secret Fan”. It depicts the intimate relationships between two pairs of girls in two different time periods. Starring famous actresses Li Bingbing and Jun Ji-hyun, the film is directed by Wang Ying, the director of “The Joy Luck Club”. Shooting is currently under way.

Other Segment

Revenue from other segment was HK\$8,388,000 in 2009, mainly derived from the disposal of investment securities.

FINANCIAL REVIEW

Continuing Operations

Sales revenue for the year ended 31 December 2009 amounted to HK\$284,058,000, being a 53% increase comparing to the prior year. The significant growth was mainly driven by the increase in sales from television advertising segment of HK\$96,592,000 or 54% during the year. Due to our strategy for the extension of advertising revenue sources to organization of large-scale activities and reality shows through which we could make use of media resources in addition to the Travel Channel air time, and also the significant growth of revenue from special sponsorship and program title sponsorship, the Travel Channel’s advertising revenue grew by 41% during the year. In addition, Sinofocus operation also contributed net sales revenue of HK\$25 million through the media resources procurement services.

Cost of sales mainly represented the average agency fees payable for the exclusive advertising agency right, net of a one-off reduction of agency fees payable of RMB50 million in the current year. Accordingly, cost of sales during the year dropped by 23% despite the increase of sales revenue during the year, leading to a gross profit of HK\$102,681,000 in current year comparing to a gross loss of HK\$49,248,000 in the prior year.

Other gains, net mainly comprised gain on disposal of exclusive advertising agency right, interest income from loan to a jointly controlled entity, bank interest income and fair value gain on financial assets at fair value through profit or loss. The significant increase in other gains, net is mainly due to the recording of a one-off gain on disposal of exclusive advertising agency right of HK\$66,290,000.

Marketing and selling expenses mainly attributed to the television advertising segment. Although sales revenue from the television advertising segment for the year increased by 54% comparing to prior year, marketing and selling expenses for the year slightly dropped to HK\$24,006,000 (2008: HK\$25,862,000) or by 7% comparing to the prior year due to the effective cost control especially through regular revisit of commission policy.

Total administrative expenses for the year amounted to HK\$61,677,000 (2008: HK\$188,629,000), being a 67% decrease comparing to the prior year. This was mainly due to the following reasons: (i) Exchange gain mainly resulting from the appreciation of RMB against HK\$ dropped significantly to HK\$806,000 during the year from HK\$22,891,000 in the prior year; (ii) non-cash share-based payments dropped to HK\$13,762,000 during the year from HK\$77,135,000 in the prior year; and iii) there was a provision for impairment of trade and other receivables of HK\$75,903,000 included in the administrative expenses in the prior year, while in current year there was a write back of such provision of HK\$3,359,000. If all the above factors are excluded, the remaining administrative expenses for the year in fact decreased to HK\$52,080,000 (2008: HK\$58,482,000) or by 11% comparing to the prior year due to our continued effort in cost control.

Finance costs for the year, which mainly represented notional non-cash interest accretion on convertible notes and pre-agreed periodic payments on exclusive advertising agency right, reduced to HK\$31,291,000 (2008: HK\$55,499,000) or by 44% comparing to the prior year. The amounts were recorded in accordance to the relevant financial reporting standards but there were in fact no cash interest payments. No similar finance costs are expected to recur since 2010.

Discontinued Operation

The loss for the year from discontinued operation of HK\$64,618,000 was related to the disposal of the exclusive advertising agency business for the Satellite TV Channel of Guangdong Television conducted through Guangzhou Zhanshi Advertising Company Limited 廣州湛視廣告有限公司 (“Guangzhou Zhanshi 廣州湛視”). Such loss is not expected to recur since 2010.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

As at 31 December 2009, the Group held cash and cash equivalents of approximately HK\$648,072,000, increased by around 2 times comparing to the balance as at 31 December 2008.

The Group was at net current asset position of HK\$508,525,000 while it was at net current liability position of HK\$175,148,000 as at 31 December 2008. As at 31 December 2008, the agency fee payables for the Travel Channel for the future twelve months were included as current liabilities in accordance to the relevant financial reporting standards, although they are not yet due and the relevant advertising sales (and thus the relevant cash inflows and receivables) were not yet incurred. This leads to higher than normal current liability amount and thus leads to the net current liability position. Excluding such undue agency fee payables for the Travel Channel, the Group is at net current asset position of HK\$49,370,000 as at 31 December 2008. The increase of net current asset during the year was mainly due to the net proceeds raised through the completion of open offer and share placement in December 2009. The adjusted current ratio, representing the total current assets to the total current liabilities excluding the undue agency fees payable for the Travel Channel, significantly increased from 1.06 as at 31 December 2008 to 2.49 as at 31 December 2009.

The debt to equity ratio, representing the sum of borrowings and convertible notes to total equity, decreased from 0.05 as at 31 December 2008 to 0.04 as at 31 December 2009, and is still remained at a very low level. Except for the convertible notes, the Group had no outstanding borrowing as at 31 December 2009 and 31 December 2008.

Foreign Exchange Risk

For the year ended 31 December 2009, the Group had derived an exchange gain of approximately HK\$806,000. The Group mainly operates in China and is only exposed to foreign exchange risk arising from Chinese Renminbi currency exposures, primarily with respect to the Hong Kong dollars. Accordingly, the exchange rate risk of the Group is considered to be relatively low. The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure but manages through constant monitoring to limit as much as possible its net exposures.

Capital Structure

The Group has mainly relied on its equity and internally generated cash flow to finance its operations. As at 31 December 2009, the Group had no outstanding borrowing except for the convertible notes.

During the year, the Company has issued 9,031,616,992 new ordinary shares upon completion of the open offer of three offer shares for every eight shares and a share placement at a price of HK\$0.048 per share. Details of the open offer and the share placement are disclosed in the Company's circular dated 25 November 2009.

Pledge of Assets and Contingent Liabilities

As at 31 December 2009, none of our assets was pledged and we did not have any material contingent liabilities or guarantees.

Gearing Ratio

The Group's gearing ratio, representing the Group's long term liabilities to net assets, was decreased significantly from 0.59 as at 31 December 2008 to 0.04 as at 31 December 2009.

Human Resources

As at 31 December 2009, the Group employed a total of 93 full-time employees in Hong Kong and the PRC. The total staff costs (inclusive of share-based payments) of the Group amounted to approximately HK\$35,037,000 for the year ended 31 December 2009. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

Details of Material Acquisitions and Disposals of Subsidiaries and Associated Companies

On 25 June 2009, the Group had entered into an agreement to dispose of its 100% equity interests in Guangzhou Zhanshi Advertising Company Limited ("Guangzhou Zhanshi") to independent third parties. Guangzhou Zhanshi is principally engaged in advertising agency and has been appointed as the

exclusive advertising agency for Guangdong Provincial Satellite Television for the period from 1 January 2009 to 31 December 2011. For details, please refer to the announcement issued by the Company on 25 June 2009.

Significant Investments Held

As at 31 December 2009, the Company had interests in subsidiaries of approximately HK\$812,705,000 and the Group had interest in an associated company of approximately HK\$253,144,000. The Group had amounts due from a jointly controlled entity and its subsidiaries of approximately HK\$95,129,000.

Future Prospects

After completion of the open offer and share placement, the Group had more than HK\$600 million cash on hand as at 31 December 2009. Approximately HK\$150 million will be used to enhance the development of media resources procurement business. It will be used for working capital, research and development on and acquisition of new media and Internet advertising businesses. In addition, the Group will focus our effort in the development of medium and large local clients in China. In fact, more than half of China's advertising spending, including those from the large and medium domestic enterprises, were conducted through network other than international advertising agencies. The related businesses are expected to become one of the Group's core revenue sources in the future.

The common interests in the Travel Channel have tied the Group and Hainan TV Group closer. The operation and advertising business are organized by a unified management team under Ms. Wang Ping. We expect that advertising revenue of the Travel Channel this year will exceed that of last year. Based on unaudited management information, advertising sales revenue from the Travel Channel in January and February 2010 grew 30% over the same period of last year. Moreover, a total of approximately RMB160 million worth of advertising contracts were already concluded for this year. While striving to generate more revenue by organizing major events and seeking special sponsorship and program title sponsorship income, the Travel Channel will actively strengthen cooperation with local governments and tourism administrations on the production of travel-related promotional programs. For instance, it entered into an agreement with Guangdong Provincial Tourism Administration to jointly produce a program called "Guangdong in the Eyes of Asians". In addition, the Travel Channel will increase the budget on brand building, talent recruitment, program production and procurement of TV programs and dramas in 2010. It also plans to gradually extend coverage into second and third-tier cities in China and targets to reach 600 million audiences eventually. In the medium and long run, the new management team has set clear target for the Travel Channel — to breakthrough advertising revenue of RMB700 million in five-year's time.

The Group will cooperate with its strategic shareholder to expand cultural and tourism businesses through equity investment or acquisitions. The cultural and tourist sectors are regarded by the China government as strategically important for boosting economic development. With thriving domestic demand, the two sectors have tremendous room for growth. Hinged on the Travel Channel, the Group will make use of its powerful cross-media platform to market and promote cultural and tourism businesses, enhance their influence and enrich the contents of its media operation.

MANAGEMENT DISCUSSIONS AND ANALYSIS FOR THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2010

RESULTS OF BUSINESS SEGMENTS

Business Review

	Sales revenues		Segment results	
	2010	2009	2010	2009
Continuing operations:	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advertising	161,340	274,410	13,957	69,442
Content production	4,787	9,648	(8,604)	(7,732)
Properties investment	5,181	—	1,974	—
Others	—	—	—	8,388
Total	<u>171,308</u>	<u>284,058</u>	<u>7,327</u>	<u>70,098</u>

Advertising business

The Group's advertising business derived most of its revenue from the provision of media resources procurement services to international advertising agencies and direct customers, as well as from acting as an exclusive advertising agency for the Travel Channel through a joint venture formed with Hainan TV. The advertising business arising from the Travel Channel remained the key contributor to the Group's revenue.

Tourist service operators as well as mid- and high-end consumer products and services providers are major target advertisers of the Travel Channel. As domestic retail sector expanded remarkably last year, retail sales of various mid- and high-end consumer products grew by a double-digit figure while income of tourism industry grew by more than 20% over 2009. As a result, the Group saw satisfactory growth in advertising income from the tourism sector, auto sector and electronic consumer product sector. However, as mentioned in the preceding paragraphs, after taking into account the fierce competition in the market, the ever increasing content production cost and the upward adjustment on the discount rate applicable, the Group has revised its future cash flow projection for its advertising business. This has resulted in a non-cash goodwill impairment charge of HK\$470,444,000 during the year.

In order to focus resources on the development of core business and to accelerate recovery of working capital, management decided to dispose of the media resources procurement operation of Sinofocus Media Group in November 2010 at a consideration of HK\$82 million. The proceeds would be used for the development of other businesses with greater potential. Meanwhile, in late 2010, the Group has obtained a three-year exclusive right to operate the advertising business for certain sectors at Beijing Railway Station and Beijing West Railway Station. Beijing is a national transportation hub and provides plenty room for media advertising growth. The national railway system and the national express rail network are also developing rapidly. After proper investment in and restructuring of advertising resources, management believes that this business will experience robust growth and help to further diversify the Group's income sources.

Content production business

The Group invested more than HK\$60 million in content production business in year 2010. “The Love of the Hawthorn Tree” directed by Zhang Yi-mou was rolled out in the second half of last year. Featuring pure love, the film was widely acclaimed in the market and produced satisfactory box-office receipts. Meanwhile, the production of “Snow Flower and the Secret Fan”, which stars Korean famous actress Jun Ji-hyun and China’s pop-star Li Bingbing, is in full swing. Management expects both of the aforementioned movies and other TV programs will bring in returns in year 2011.

Properties investment

In September 2010, the Group acquired a 50% interest in certain office units and retail facilities at Shenzhen Tian An International Building and a 50% interest in the management company of this building for a consideration of HK\$280 million. Shenzhen Tian An International Building is located in Renmin South Road, Luohu District, Shenzhen and total floor areas acquired amounted to approximately 31,700m². Most of the said office units and retail facilities have been leased to third parties.

FINANCIAL REVIEW**Liquidity and Capital Resources**

We have adopted prudent treasury management objectives aimed at principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with the strategic plans and policies. As at 31 December 2010, the Group held cash and cash equivalents of approximately HK\$236,678,000, being a 63% decrease comparing to the balance as at 31 December 2009.

The Group was at net current asset position of HK\$135,200,000 as at 31 December 2010 (2009: HK\$508,525,000). The current ratio, representing the total current assets to the total current liabilities, decreased from 2.49 as at 31 December 2009 to 1.35 as at 31 December 2010.

The debt to equity ratio, representing the sum of borrowings and convertible notes to total equity, decreased from 0.04 as at 31 December 2009 to zero as at 31 December 2010. The Group had no outstanding borrowing as at 31 December 2010.

Foreign Currency Exchange Exposure

For the year ended 31 December 2010, the Group derived an exchange gain of approximately HK\$15,963,000. The Group mainly operates in China and is only exposed to foreign exchange risk arising from Chinese Renminbi currency exposures, primarily with respect to the Hong Kong dollars. Accordingly, the exchange rate risk of the Group is considered to be relatively low.

Pledge of Assets and Contingent Liabilities

As at 31 December 2010, none of the Group’s assets was pledged and the Group did not have any material contingent liabilities or guarantees.

Gearing Ratio

The Group's gearing ratio, representing long-term liabilities to net assets, increased from 0.04 as at 31 December 2009 to 0.08 as at 31 December 2010.

Human Resources

As at 31 December 2010, the Group employed a total of approximately 70 full-time employees in Hong Kong and the PRC. The staff costs (inclusive of share-based payments) of the Group amounted to approximately HK\$30,991,000 for the year ended 31 December 2010. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

Capital Structure

The Group has mainly relied on its equity and internally generated cash flow to finance its operations. As at 31 December 2010, the Group had no outstanding borrowing.

During the year, the Company has issued (i) 1,065,217,391 new ordinary shares upon conversion of convertible notes at a conversion price of HK\$0.046 per share; and (ii) 49,995 new ordinary shares upon exercise of share options.

Details of Material Acquisitions and Disposals of Subsidiaries and Associated Companies

On 10 September 2010, the Company and Effort Wonder Limited, a wholly owned subsidiary of the Company, has entered into an acquisition agreement with Winshine Group Limited ("Winshine Group") and Tian An China Investments Company Limited whereby the Group will purchase the entire issued share capital of Green Harmony Investments Limited ("Green Harmony") and Green Villa Investments Limited ("Green Villa") and the shareholder's loan owed by Green Villa to Winshine Group as at the date of completion for a consideration of HK\$280,000,000. The major asset of Green Harmony and Green Villa is the holding of 50% of the registered capital of each of Shenzhen ITC Tian An Co., Limited ("Shenzhen ITC") and Shenzhen Tian An International Building Property Management Co., Limited ("Shenzhen Tian An"), both being joint venture enterprises established in the PRC. Shenzhen ITC owns various floors and units in Shenzhen Tian An International Building in Shenzhen, the PRC. Most of the said floors and units are presently under leases to third parties. Shenzhen Tian An presently engages in the business of property management and is managing the said Shenzhen Tian An International Building. The said transaction has been completed by the end of September 2010.

By December 2010, the Group also completed the acquisition of entire registered capital of Shanghai Zhenlejian Advertising Company Limited ("Shanghai Zhenlejian") for a consideration of RMB500,000 (equivalent to HK\$588,000). Shanghai Zhenlejian is principally engaged in advertising agency business in the PRC.

On 16 November 2010, the Company and KH Investment Holdings Limited (“KH Investment”) entered into an agreement pursuant to which the Company agreed to sell and the KH Investment agreed to purchase all the Company’s equity interest in and its loans to Sinofocus Media (Holdings) Limited (“Sinofocus”) at an aggregate consideration of HK\$82,000,000. Sinofocus, a wholly-owned subsidiary of the Company, is an investment holding company holding various subsidiaries engaged in advertising agency and media resources procurement business. The said disposal was terminated pursuant to the deed of termination entered into between the Company and KH Investment on 15 April 2011.

On 19 May 2011, the Company and DVN (Holdings) Limited (“DVN”), an independent third party, entered into an agreement pursuant to which the Company agreed to sell and DVN agreed to purchase all the Company’s equity interest in and its loans to Sinofocus at an aggregate consideration of HK\$82,000,000. Sinofocus ceased to be a subsidiary of the Company in June 2011.

Significant Investments Held

As at 31 December 2010, the Group held investments properties which were located in the PRC in the amount of approximately HK\$359,890,000, through a 50% indirectly owned jointly controlled entity acquired in year 2010. The amounts recognized in the profit and loss for investment properties was approximately HK\$2,170,000 for the year ended 31 December 2010.

As at 31 December 2010, the Company had interests in subsidiaries of approximately HK\$855,917,000 and the Group had interest in an associated company of approximately HK\$268,986,000. The Group had amounts due from a jointly controlled entity and its subsidiaries of approximately HK\$91,556,000 as at 31 December 2010.

As at 31 December 2010, the Group had financial assets at fair value through profit or loss in an amount of HK\$28,000,000.

Fluctuation of Intangible Assets and Exclusive Advertising Agency Rights

The Group's intangible assets were decreased significantly from approximately HK\$511,141,000 as at 31 December 2009 to approximately HK\$114,670,000 as at 31 December 2010. The significant decrease of the intangible assets was mainly attributable to the impairment expense charged on the Group's goodwill in the amount of approximately HK\$470,444,000.

The impairment charge was made after taken into account the following factors, among others, into consideration, management has adjusted downwards the projected annual net cash inflow during the next five-year period for its advertising:

- the year-on-year growth of sales from the advertising business slowed down during the second half of 2010 comparing to the first half of 2010;
- the marketing and selling expenses in relation to advertising sales and costs of programme production has been increasing since the second half of 2010, and such rising trend is expected to continue in the near future;
- the market competition in the advertising market in the PRC is still very intense; and
- the proposed disposal of Sinofocus Media (Holdings) Limited and its subsidiaries which engaged in advertising agency and media resources procurement business.

Taking into account the adjustments on the cash flow projection as mentioned above and the upward adjustments on the discount rate applicable, the impairment tests on goodwill resulted in an impairment loss of approximately HK\$470,444,000 (2009: nil).

The Group's held two streams of exclusive advertising agency right which are recognized as non-current and current assets respectively. Both of the non-current and current exclusive advertising agency right had been decreased significantly from approximately HK\$569,427,000 and HK\$401,911,000 respectively as at 31 December 2008 to nil as at 31 December 2009. The decrease of the non-current exclusive advertising agency right was mainly attributable to the disposal in the amount of HK\$380,225,000 and amortization expense of HK\$190,113,000 charged on the non-current exclusive advertising agency right.

The significant decrease of the Group's current exclusive advertising agency right was mainly attributable to the disposal of a subsidiary in the amount of HK\$147,606,000 and an amortization expense of HK\$239,121,000 charged for the year 2009.

The Group's current exclusive advertising agency right increased from nil as at 31 December 2009 to HK\$51,121,000 as at 31 December 2010 which was mainly attributable to the Group's acquisition of the exclusive advertising agency right in certain sectors for Beijing Railway Station and Beijing West Railway station for the year 2010.

Future Prospects

Looking ahead into 2011, media and advertising markets in China will continue to grow at a rapid pace. While delivering the 2011 government work report, Premier Wen Jiabao stressed that service industry will be promoted to boost cultural and tourism expenditures. According to the “Guidelines of the Plan for the Promotion of Tourism Industry Development” issued by the State Council, tourism is one of the strategic pillar industries in the development of the nation’s economy. Annual revenue of the tourism industry is projected to grow by 12% from 2011 to 2015, which shows PRC’s strong commitment to develop the tourism industry. The management believes these policies will provide a sound business environment for the media and tourism industries, which is beneficial to the Travel Channel’s operation.

According to statistics from the National Bureau of Statistics, GDP per capita of PRC has maintained rapid growth in recent years, rising from approximately RMB16,000 in 2006 to approximately RMB25,000 in 2009. As the income of Chinese households increase, the travel patterns of domestic tourists have changed from sightseeing to leisure travelling, which have created new business opportunities in the tourism sector. Leverage opportunities brought from the rapid growth of the industry, the Group proposed in February 2011 to conditionally acquire Beijing “Bayhood No. 9 Club”. The Group plans to expand into recreational and tourism-related businesses through this flagship project. “Bayhood No. 9 Club”, located near the city center of Beijing, is a membership-based luxury club which comprises of business hotel facilities, an 18-hole golf course, driving range facilities, theme restaurants and cafes, spa facilities, retail shops, and the first PGA branded and managed golf academy in Asia. It focuses on the high-net-worth sector who are able to afford leisure and recreational travelling. Management believes that the acquisition of “Bayhood No. 9 Club” will establish a solid foundation for the Group to seize considerable opportunities in the leisure travelling business. As of the date of this announcement, the acquisition is not yet completed.

MANAGEMENT DISCUSSIONS AND ANALYSIS FOR THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2011**BUSINESS REVIEW AND PROSPECTS****Financial Performance**

Major indicators of the financial results for the year ended 31 December 2011 are summarized in the table below:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales revenue	125,224	171,308
Gross profit	30,998	54,364
Loss before taxation	(5,937)	(478,854)
Loss for the year	(17,627)	(483,667)

The Chinese economy slowed in 2011 amid weakening export demand and economic tightening policies. In the face of stringent market conditions, the Group pursued a diversification strategy to create new revenue sources and to improve operating results.

The Group successfully expanded into the High-end Recreational and Tourism services sector after completing the acquisition of the “Bayhood No. 9 Club” operation in July 2011. “Bayhood No. 9 Club” is a membership-based luxury club which comprises business hotel facilities, theme dining rooms, spa facilities, retail shops, 18-hole golf course, practice bays and a PGA-branded golf academy. Target customers of “Bayhood No. 9 Club” are those of high net worth individuals and corporations.

Meanwhile, the Group’s investment in the Shenzhen Tian An International Building, completed in September 2010, continued to provide stable revenue from rental and management fees last year.

During year 2011, the Group achieved HK\$125.2 million in revenue, down 27% from year 2010. It was mainly because a joint venture in which the Group holds a 50% interest ceased to operate advertising agency business for the Travel Channel from the beginning of year 2011. Instead, this advertising business was carried out by Hainan Haishi Tourist Satellite TV Media Co., Ltd. (“Hainan Haishi”), an associated company in which the Group has 49% economic interests, thus the advertising revenue and costs arising the Travel Channel was reported under the item of “Share of profit of an associated company”. On the other hand, newly acquired businesses, namely the “Bayhood No. 9 Club” and the investment in Shenzhen Tian An International Building, generated stable income, partly offsetting the revenue reduction from the media business and accounts for more than half of the sales revenue for year 2011.

With the transition for business diversifications still in progress, the Group recorded a net loss of HK\$17.6 million in year 2011, being a decrease of 96% comparing to that in year 2010. The significant reduction in net loss position was mainly because no provision for impairment on goodwill for the year 2011 was necessary.

Market Review

China’s economy was adversely affected by the European and U.S. debt crises as well as the global economic fluctuations in 2011. Nevertheless, its GDP still managed to grow at brisk rate of 9.2% year-on-year. According to the Global Wealth Report by Credit Suisse, China was one of the six countries with the highest wealth increase and had about 10.17 million millionaires. This figure is expected to double in the coming five years. We believe that the increasing number of wealthy people in the nation will create a favourable market environment for the Group’s “Bayhood No. 9 Club” operation which focus on high-net-worth customers.

As to the performance of the media sector, according to CTR Market Research, China’s advertising expenditures for 2011 grew mildly at 13% over 2010. Advertising expenditures on all media, excluding outdoor media, experienced double-digit growth during the period, with TV remaining the most preferred media for advertisement.

Business Review

	Sales Revenue		Segment Results	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
High-end Recreational and Tourism				
Services	64,614	—	11,876	—
Media	39,920	166,127	(14,313)	5,353
Properties Investment	<u>20,690</u>	<u>5,181</u>	<u>41,948</u>	<u>1,974</u>
Total	<u>125,224</u>	<u>171,308</u>	<u>39,511</u>	<u>7,327</u>

High-end Recreational and Tourism Services

The Group has completed the acquisition of the “Bayhood No. 9 Club” operation in July 2011. “Bayhood No. 9 Club” is a membership-based luxury club located near the city center of Beijing, comprising comprehensive facilities including:

- 7,260 yard, 18-hole championship golf course deigned by renowned designer
- Double-storied practice bays equipped with private VIP rooms
- PGA-branded and managed golf academy
- Professional retail shops
- Theme dining rooms serving Chinese and Western cuisine
- Spa facilities and coffee shops

Revenue of “Bayhood No. 9 Club” mainly derived from the following sources:

- Sale of membership
- Annual membership fees
- Green fees, caddy and buggy fees, practice bay and VIP room rental fees
- Golf academy tuition fees
- Sale of food and beverages from the theme dining rooms
- Other services such as spa, retails, coffee shops, etc.

As the accumulated number of members has increased gradually each year while many of the operating costs and expenses, such as depreciation, rental fee payable, staff costs and maintenance costs were relatively stable, gross profit margin and net profit margin of “Bayhood No. 9 Club” increased steadily. In 2011, its gross profit margin advanced 3.5 percentage points year-on-year to 51.5%, while

net profit margin improved 3.3 percentage points year-on-year to 27.2%. Management believes that this project enables the Group to create better returns for shareholders by taking advantage of the thriving high-end consumption sector.

Media

The Group's media business mainly comprised the Travel Channel operation, the exclusive advertising agency business at Beijing Railway Station and Beijing West Railway Station which started in 2011, and the content production operation. In order to facilitate its restructuring, devote resources towards core businesses and shorten the payback period, the Group decided to dispose of the advertising agency business under Sinofocus Media at a consideration of HK\$82 million. The transaction was completed in June 2011.

The Group ceased to operate the advertising agency business for the Travel Channel through its 50% owned joint venture in year 2011. Instead, this business has been undertaken by Hainan Haishi, an associated company in which the Group has 49% economic interests. As a result, revenue and costs arising from the Travel Channel's media business were included within the item of "Share of profit of an associated company", leading to a substantial reduction of revenue from the media segment in year 2011.

The media segment recorded a loss of HK\$14.3 million in year 2011 while in year 2010 there was a profit of HK\$5.4 million. This is mainly attributed to a provision for impairment on certain programmes and film rights of HK\$11.6 million, and the operating losses arising from the exclusive advertising agency business at Beijing Railway Station and Beijing West Railway Station.

The three major shareholders who have direct or indirect interests in the Travel Channel operation (Hainan Television Broadcasting Station, Poly Culture and Arts Co., Ltd. and the Group) disagreed with one another over a number of issues relating to the Travel Channel, including its development strategy, the ways of handling the advertising agency costs incurred in the past, composition of the management team and its shareholding structure. Such disagreements created short-term impacts on the operating of the Travel Channel. However, management believes that the prospects of the Travel Channel operation remain rosy and its valuation shall steadily increase under the current national policy favoring cultural and media business, as the entry barrier of provincial satellite TV channel is high and Travel Channel has already established a strong brand name and is well received by a large number of viewers nationwide.

Properties Investment

In September 2010, the Group acquired the office units and retail facilities at Shenzhen Tian An International Building with gross floor area of approximately 31,700 m² and a 50% interest in the management company of the building for a total cash consideration of HK\$280 million. Shenzhen Tian An International Building is located in Renmin South Road, Luohu District, Shenzhen and most of the said office units and retail facilities have been leased to third parties.

During year 2011, a revaluation gain of approximately HK\$31.2 million was derived from the investment property. Revenue from properties investment segment for the year was approximately HK\$20.7 million and profit from the segment was approximately HK\$41.9 million.

Business Outlook

The number of ultra-high-net-worth individuals (personal net worth of over US\$50 million) in China keeps rising as the national economy maintains rapid growth, stimulating the growth of domestic high-end consumption. Management believes that high-end consumption business commands higher gross margins and has ample room for expansion. Targeting high-net-worth individuals and corporations in China, we will develop the “Bayhood No. 9 Club” operation into the flagship project for our high-end recreational and tourism service business, thereby extending our value chain for greater profitability.

Regarding the media businesses, we will continue to devote our resources in resolving the conflicts among the shareholders of Travel Channel, in order to release its growing implicit value as being a provincial satellite TV channel with nationwide audience coverage. We also plan to gradually discontinue other non-core media operations so that we could direct our resources into new businesses.

FINANCIAL REVIEW

Sales revenue for year 2011 amounted to HK\$125,224,000, being a 27% decrease comparing to year 2010. Cost of sales for year 2011 amounted to HK\$94,226,000, being a 19% decrease comparing to year 2010. Proportion of sales revenue from Media segment dropped significantly from 97% in year 2010 to 32% in year 2011. In year 2010, the Group’s 50% owned jointly controlled entity acted as the exclusive advertising agent of the Travel Channel, an associated company of which the Group owned 49% economic interests. However, the jointly controlled entity has not reached an agreement with Travel Channel to act as its advertising agency in year 2011. Instead, the advertising revenue and operating results of Travel Channel has been included in the line item “Share of profit of an associated company”. This led to a significant drop in sales revenue and cost of sales from Media segment.

Sales revenue from Properties Investment segment (acquired in September 2010) and High-end Recreational and Tourism Services segment (acquired in July 2011) accounted for 16% and 52%, respectively, of sales revenue in year 2011. Newly acquired businesses have now accounted for more than half of the Group’s sales revenue.

Other income and other gains, net for year 2011 mainly comprised bank interest income, fair value loss on financial assets at fair value through profit or loss, fair value gain on revaluation of investment properties and exchange gain. The amount increased by 39% comparing to year 2010, mainly due to the fair value gain on revaluation of investment properties in Shenzhen of HK\$31,234,000 offset by the fair value loss on financial assets at fair value of HK\$13,400,000 during the year. For further details, please refer to note 5 to the consolidated financial statements.

Marketing and selling expenses mainly attributed to the Media segment. As mentioned above, costs in relation to Travel Channel have been included in the operating results of an associated company, of which the Group owned 49% economic interests. This has led to an overall decrease of marketing and selling expense by 88% during the year.

Administrative expenses for year 2011 amounted to HK\$75,750,000 (2010: HK\$76,660,000), being a 1% decrease comparing to year 2010. Included in administrative expenses, provision for impairment of trade and other receivables significantly reduced from HK\$10,219,000 in year 2010 to

HK\$341,000 in year 2011. Offsetting this, there was incurrence of additional legal and professional fees for the significant business combination and disposal (as detailed in note 31 to the consolidated financial statements) during year 2011.

Provision for impairment of intangible assets significantly reduced from HK\$478,428,000 in year 2010 to HK\$11,596,000 in year 2011. No impairment on goodwill is required in year 2011 (please refer to note 15 to the consolidated financial statements for details). This leads to a significant reduction of the Group's net loss by 96% for the year.

Share of profit of an associated company, which mainly represents the share of profit of Hainan Haishi, the operating entity of the Travel Channel, increased to HK\$9,754,000 (2010: HK\$6,931,000) during the year. Please refer to note 18 to the consolidated financial statements for details of the Group's interests in the associated company.

Finance costs for year 2011 represents the accrued interests on agency fee payable in accordance to a court ruling as detailed in note 34 to the consolidated financial statements. Finance costs for year 2010 represents the notional non-cash interest accretion on convertible notes. As such convertible notes have already been fully converted into the Company's shares in year 2010, there was no recurrence of relevant finance costs in year 2011.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

We have adopted prudent treasury management objectives aimed at principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with the strategic plans and policies. As at 31 December 2011, the Group held cash and cash equivalents of approximately HK\$200,606,000, being a 15% decrease comparing to the balance as at 31 December 2010.

The Group was at net current liability position of HK\$156,194,000 as at 31 December 2011 (2010: net current asset of HK\$135,200,000). The current ratio, representing the total current assets to the total current liabilities, decreased from 1.35 as at 31 December 2010 to 0.74 as at 31 December 2011. The net current liability position was mainly attributable to the newly acquired segment of high-end recreational and tourism service. A significant portion of the current liability of this segment in fact represents deferred revenue such as deferred membership entrance fee income and rental income.

The debt to equity ratio, representing the sum of borrowings to total equity, remained zero as at 31 December 2010 and 2011. The Group had no outstanding borrowing as at 31 December 2010 and 2011.

Foreign Currency Exchange Exposure

The Group mainly operates in China and is only exposed to foreign exchange risk arising from Chinese Renminbi currency exposures, primarily with respect to the Hong Kong dollars. Accordingly, the exchange rate risk of the Group is considered to be relatively low.

Capital Structure

The Group has mainly relied on its equity and internally generated cash flow to finance its operations. As at 31 December 2011, the Group had no outstanding borrowing.

During the year, the Company has issued (i) 1,439,726,484 new ordinary shares upon completion of rights issue at HK\$0.18 per share; and (ii) 200,000,000 new ordinary shares upon completion of an acquisition of subsidiaries.

Pledge of Assets and Contingent Liabilities

As at 31 December 2011 none of our assets was pledged and we did not have any material contingent liabilities or guarantees saved as disclosed in note 34 to the consolidated financial statements.

Human Resources

As at 31 December 2011, the Group employed a total of approximately 485 full-time employees in Hong Kong and the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

Significant Investments Held

As at 31 December 2011, the Company had interests in subsidiaries of approximately HK\$1,146,906,000 and the Group had interest in an associated company of approximately HK\$292,330,000. The Group had amounts due from a jointly controlled entity and its subsidiaries of approximately HK\$96,121,000. As at 31 December 2011, the Group held financial assets at fair value through profit or loss in the amount of approximately HK\$14,600,000.

Details of Material Acquisitions and Disposals of Subsidiaries and Associated Companies

On 26 January 2011, the Group and Mr. He Peng (the “Vendor”) has entered into a sale and purchase agreement (as amended by the supplemental agreement dated 16 May 2011), pursuant to which the Group has conditionally agreed to acquire the entire equity interests in Smart Title Limited free from encumbrances for the consideration of HK\$500 million. The consideration of HK\$500 million shall be settled in the following manner:

- (i) HK\$395 million of the consideration shall be paid in cash upon completion of the acquisition;
- (ii) HK\$70 million of the consideration shall be settled by issuance of 200,000,000 new ordinary shares of the Company at HK\$0.35 each (after adjustment for share consolidation effective on 16 May 2011) upon completion of the acquisition; and

- (iii) the remaining HK\$35 million of the consideration shall be settled by the issuance of a maximum of 100,000,000 new ordinary shares of the Company at HK\$0.35 each (after adjustment for share consolidation effective on 16 May 2011), provided that:
- (a) the number of new ordinary shares to be issued by the Company will be adjusted downwards on a dollar to dollar basis if the audited net profit after tax of Smart Title Limited and its subsidiaries (the “Target Group”) for the years 2011 and 2012 shall be less than RMB80,000,000 in aggregate;
 - (b) following the deduction of the value of the new ordinary shares issued under the preceding subparagraph (a), if there shall still be in existence a shortfall, the Vendor shall compensate such shortfall in cash on a dollar to dollar to basis; and
 - (c) in case the Target Group suffers an aggregated net loss after tax for the years 2011 and 2012, in addition to the compensation under the preceding subparagraph (a) and (b), the Vendor shall compensate the Group for the aggregated loss on a dollar to dollar basis.

If, as at the date of completion, there shall remain outstanding amounts receivable from related parties outside the Target Group, the Group shall have the right to reduce the cash consideration by such outstanding amounts, and thereafter such outstanding amounts shall be deemed to have been received by the Target Group.

The said acquisition has been completed on 28 July 2011.

The Target Group is principally engaged in the provision of high-end recreational and tourism services through the management of “Bayhood No. 9 Club”, a membership-based luxury club which comprises of business hotel facilities, an 18-hole golf course, driving range facilities, theme restaurants and cafes, spa facilities, retail shops, and the first PGA branded and managed golf academy in Asia. “Bayhood No. 9 Club” is located near the city centre of Beijing, PRC.

The sales included in the consolidated income statement since respective acquisition dates contributed by the subsidiaries acquired was HK\$64,614,000 (2010: HK\$5,181,000). These acquired subsidiaries also contributed profit of HK\$11,876,000 (2010: HK\$12,534,000) over the same period. Had these acquires subsidiaries been consolidated from 1 January 2011, the consolidated income statement would show sales of HK\$150,940,000 (2010: HK\$19,543,000) and profit of HK\$27,818,000 (2010: HK\$11,818,000).

On 19 May 2011, the Company and DVN (Holdings) Limited have entered into a sale and purchase agreement, whereby the Company agreed to sell the entire issued share capital in and assign its loan due from Sinofocus Media (Holdings) Limited (“Sinofocus”) to DVN (Holdings) Limited at an aggregate consideration of HK\$82,000,000 payable in cash. Sinofocus, a wholly-owned subsidiary of the Company, is an investment holding company holding various subsidiaries engaging in advertising agency and media resources procurement business. The said disposal has been completed in June 2011, resulting in a loss on disposal of approximately HK\$1,806,000.

Future Prospects

The number of ultra-high-net-worth individuals (personal net worth of over US\$50 million) in China keeps rising as the national economy maintains rapid growth, stimulating the growth of domestic high-end consumption. Management believes that high-end consumption business commands higher gross margins and has ample room for expansion. Targeting high-net-worth individuals and corporations in China, we will develop the “Bayhood No. 9 Club” operation into the flagship project for our high-end recreational and tourism service business, thereby extending our value chain for greater profitability.

Regarding the media businesses, we will continue to devote our resources in resolving the conflicts among the shareholders of Travel Channel, in order to release its growing implicit value as being a provincial satellite TV channel with nationwide audience coverage.

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



羅兵咸永道

8 August 2012

The Directors
Media China Corporation Limited

Dear Sirs,

We report on the financial information of Yuan Shun Investments Limited (the “Target Company”) and its subsidiaries (together, the “Target Group”), which comprises the consolidated and company balance sheets of the Target Company as at 31 December 2011 and 31 March 2012, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Target Company for the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011 and the three months ended 31 March 2012 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Media China Corporation Limited (the “Company”) and is set out in Sections I to III below for inclusion in Appendix II to the circular of the Company dated 8 August 2012 (the “Circular”) in connection with the proposed acquisition of the Target Company by the Company.

The Target Company was incorporated in the British Virgin Islands with limited liability on 9 June 2011.

As at the date of this report, the Target Company has direct and indirect interests in the subsidiaries as set out in Note 9 of Section II below.

No audited financial statements have been prepared by the Target Company as it is not required to issue audited financial statements under the statutory requirement in the British Virgin Islands.

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The director of the Target Company has prepared the consolidated financial statements of the Target Company for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA pursuant to separate terms of engagement.

The director of the Target Company is responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRSs, and for such internal control as the director determines is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together, the “Group”) as set out in the annual report of the Company for the year ended 31 December 2011.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company and of the Target Group as at 31 December 2011 and 31 March 2012 and of the Target Group's results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the financial information of the Target Group prepared by the directors of the Company as at 31 December 2011 and 31 March 2012 and for the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011 and the three months ended 31 March 2012.

Consolidated income statements

		For the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011	For the three months ended 31 March 2012
	<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>
Other income	4	22	26
Administrative expenses	5	<u>(7,020)</u>	<u>(1,195)</u>
Loss before taxation		(6,998)	(1,169)
Taxation	7	<u>—</u>	<u>—</u>
Loss for the period		<u><u>(6,998)</u></u>	<u><u>(1,169)</u></u>
Attributable to equity holder of the Target Company		<u><u>(6,998)</u></u>	<u><u>(1,169)</u></u>

Consolidated statements of comprehensive income

	For the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011 HK\$	For the three months ended 31 March 2012 HK\$
Loss for the period	<u>(6,998)</u>	<u>(1,169)</u>
Total comprehensive loss attributable to equity holder of the Target Company	<u>(6,998)</u>	<u>(1,169)</u>

Consolidated balance sheets

		As at 31 December 2011 HK\$	As at 31 March 2012 HK\$
	Note		
NON-CURRENT ASSETS			
Property, plant and equipment	10	—	1,110,289
CURRENT ASSETS			
Amount due from the immediate holding company	16	8	8
Cash and cash equivalents	12	793,002	786,295
		<u>793,010</u>	<u>786,303</u>
TOTAL ASSETS		<u>793,010</u>	<u>1,896,592</u>
CURRENT LIABILITIES			
Other payable		—	1,110,289
Loan from the Ultimate Shareholder	16	800,000	794,462
		<u>800,000</u>	<u>1,904,751</u>
NET CURRENT LIABILITIES		<u>(6,990)</u>	<u>(1,118,448)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(6,990)</u>	<u>(8,159)</u>
NET LIABILITIES		<u>(6,990)</u>	<u>(8,159)</u>
EQUITY			
Capital and reserves attributable to equity holder of the Target Company			
Share capital	13	8	8
Reserves	14	(6,998)	(8,167)
TOTAL DEFICIT		<u>(6,990)</u>	<u>(8,159)</u>

Balance sheets

		As at 31 December 2011 <i>HK\$</i>	As at 31 March 2012 <i>HK\$</i>
	<i>Note</i>		
NON-CURRENT ASSET			
Investment in a subsidiary	9	1	1
CURRENT ASSET			
Amount due from the immediate holding company	16	<u>8</u>	<u>8</u>
TOTAL ASSETS		<u>9</u>	<u>9</u>
CURRENT LIABILITY			
Amount due to a subsidiary	9	<u>1</u>	<u>1</u>
NET CURRENT ASSETS		<u>7</u>	<u>7</u>
TOTAL ASSETS LESS CURRENT LIABILITY		<u>8</u>	<u>8</u>
NET ASSETS		<u><u>8</u></u>	<u><u>8</u></u>
EQUITY			
Capital and reserves attributable to equity holder of the Target Company			
Share capital	13	<u>8</u>	<u>8</u>
TOTAL EQUITY		<u><u>8</u></u>	<u><u>8</u></u>

Consolidated cash flow statements

		For the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011	For the three months ended 31 March 2012
	Note	HK\$	HK\$
Cash flows from operating activities			
Cash used in operations	15	(7,028)	(1,195)
Income tax paid		—	—
Net cash used in operating activities		(7,028)	(1,195)
Cash flow from an investing activity			
Interest received		22	26
Net cash generated from an investing activity		22	26
Cash flows from financing activities			
Proceeds from issuance of shares		8	—
Repayment of the loan from the Ultimate Shareholder		—	(5,538)
Proceeds from the loan from the Ultimate Shareholder		800,000	—
Net cash generated from/(used in) financing activities		800,008	(5,538)
Net increase/(decrease) in cash and cash equivalents		793,002	(6,707)
Cash and cash equivalents at beginning of the period		—	793,002
Cash and cash equivalents at end of the period	12	793,002	786,295

Consolidated statements of changes in equity

	Share capital HK\$	Accumulated losses HK\$	Total HK\$
Loss and total comprehensive loss for the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011	—	(6,998)	(6,998)
Issuance of shares (<i>Note 13</i>)	<u>8</u>	<u>—</u>	<u>8</u>
Balance at 31 December 2011	<u><u>8</u></u>	<u><u>(6,998)</u></u>	<u><u>(6,990)</u></u>
Balance at 1 January 2012	8	(6,998)	(6,990)
Loss and total comprehensive loss for the three months ended 31 March 2012	<u>—</u>	<u>(1,169)</u>	<u>(1,169)</u>
Balance at 31 March 2012	<u><u>8</u></u>	<u><u>(8,167)</u></u>	<u><u>(8,159)</u></u>

II. NOTES TO THE FINANCIAL INFORMATION**1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION****1.1 General information**

Yuan Shun Investments Limited (the "Target Company") was incorporated in the British Virgin Islands on 9 June 2011 with limited liability. The address of the Target Company's registered office is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

The Target Company is an investment holding company and its subsidiaries are principally engaged in hotel villas management to provide low density, double storey deluxe hotel villas and conferencing facilities equipped with basement, luxurious amenities and gardening.

As at 31 December 2011 and 31 March 2012, the Target Company is wholly owned by Smart Concept Enterprise Limited, the immediate holding company, which is wholly owned by Mr. Yuen Hoi Po, (the "Ultimate Shareholder").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of this financial information is set out below.

2.1 Basis of preparation

The financial information of the Target Company has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by HKICPA. The financial information has been prepared under the historical cost convention.

As at 31 December 2011 and 31 March 2012, the Target Group has net current liabilities of HK\$6,990 and HK\$1,118,448, respectively, and net liabilities of HK\$6,990 and HK\$8,159, respectively. The Ultimate Shareholder of the Target Company has confirmed its present intention to provide continuing financial support to the Target Group so as to enable the Target Group to continue operating in the foreseeable future. In addition, the Ultimate Shareholder will not demand the repayment of the Ultimate Shareholder's loan if the Target Group is unable to meet its obligation to repay the Ultimate Shareholder's loan. Consequently, the financial statements have been prepared on a going concern basis.

The preparation of financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies.

Standards, amendments and interpretations to existing standards that were not yet effective and were not early adopted by the Target Group

The following standards, amendments and interpretations to existing standards were published and were mandatory for the accounting periods of the Target Group beginning on or after 1 January 2013 or later periods, but the Target Group did not early adopt them:

		Effective for the accounting period beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKFRS 10	Consolidated financial statements	1 January 2013
HKAS 27 (revised 2011)	Separate financial statements	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKFRS 7 (Amendment)	Financial instruments: Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
4th 2011 annual improvement project		1 January 2013
HKAS 32 (Amendment)	Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9	Financial Instruments	1 January 2015
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015

The new standards, amendments to the standards and interpretations have no material impact on the Target Group.

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Target Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date that control ceases.

(i) *Acquisition method of accounting*

The Target Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Target Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

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

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

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

2.3 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial information of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Target Company's functional currency is Renminbi ("RMB"). In the opinion of the directors of the Company, Hong Kong dollar ("HK\$") is the appropriate currency for the purpose of the users of the financial information which is the Target Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statements.

(c) *Group companies*

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

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statements of comprehensive income as part of the gain or loss on sale.

2.4 Property, plant and equipment

Construction in progress is stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the construction and consultancy fee.

No depreciation is provided on construction in progress since they are not ready for use. On completion, the costs are transferred to the appropriate property, plant and equipment.

2.5 Impairment of non-financial assets

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

2.6 Financial assets

The Target Group classifies its financial assets as loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the balance sheet date. These are classified as non-current assets. The Target Group's loans and receivables comprise "amount due from the immediate holding company" and "cash and cash equivalents" in the consolidated balance sheets.

Regular purchases and sales of financial assets are recognized on the trade-date — the date on which the Target Group commits to purchase or sell the asset. They are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Target Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

The Target Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of amount due from the immediate holding company is described in Note 2.7.

2.7 Impairment of financial assets

A provision for impairment of receivables is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated income statements within "administrative expenses". When the receivables are uncollectible, they are written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against "administrative expenses" in the consolidated income statements.

2.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks with original maturities of three months or less.

2.9 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated income statements, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

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

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.10 Share capital

Ordinary shares are classified as equity.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks factors: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk.

Risk management is carried out by the senior management of the Target Group. Formal and informal meetings are held to identify and evaluate significant risks and to develop procedures to deal with any risks in relation to the Target Group's business.

(a) *Market risk*

(i) *Foreign exchange risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises from monetary assets and liabilities denominated in foreign currencies.

The Target Group operates mainly in the PRC and Hong Kong. The Target Group is exposed to foreign exchange risk arising from the bank balances, that part of the bank balances are denominated in United States dollar ("US\$").

As HK\$ is pegged to US\$, management considers that there is no significant foreign exchange risk between these two currencies to the Target Group.

(ii) *Cash flow interest rate risk*

The Target Group's interest rate risk arises from bank balances. The bank balances held at variable rates expose the Target Group to cash flow interest rate risk. Except the bank balances, the Target Group has no significant interest bearing assets. The Target Group's income and operating cash flows are substantially independent of changes in market interest rate.

(b) *Credit risk*

The credit risk of the Target Group arises from cash and cash equivalents. The carrying amounts of these balances represent the Target Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2011 and 31 March 2012, all bank balances are deposited in reputable local financial institutions without significant credit risk. Management does not expect any losses from non-performance by these banks. The Target Group does not hold any collateral as security as at 31 December 2011 and 31 March 2012.

(c) *Liquidity risk*

The Target Group's policy is to regularly monitor current and expected liquidity requirements to ensure sufficient cash is maintained. As at 31 December 2011 and 31 March 2012, the Target Group's current liabilities exceeded its current assets. The director closely monitors the liquidity position of the Target Group by assessing the business liquidity, working capital and cash flow requirements for the coming twelve months. Based on the assessment, the director is of the opinion that the Target Group will be able to generate sufficient funds from its business to continue in operational existence for the foreseeable future. In addition, the Ultimate Shareholder has confirmed its present intention to provide continuing financial support to the Target Group and for not demanding the repayment of the Ultimate Shareholder's loan if the Target Group is unable to meet its obligation to repay the Ultimate Shareholder's loan. For details, please refer to Note 2.1.

The table below analyzes the financial liabilities of the Target Group and the Target Company into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	At 31 December 2011 HK\$	At 31 March 2012 HK\$
Target Group		
On demand or less than 1 year		
Other payable	—	1,110,289
Loan from the Ultimate Shareholder	800,000	794,462
	<u>800,000</u>	<u>1,904,751</u>
Target Company		
On demand or less than 1 year		
Amount due to a subsidiary	1	1
	<u>1</u>	<u>1</u>

3.2 **Capital risk management**

The Target Group's capital risk management policy is monitor the total equity and advance from Ultimate Shareholder as capital.

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

3.3 Fair value estimation

The carrying values of cash and cash equivalents, amount due from the immediate holding company, other payable and loan from the Ultimate Shareholder are assumed to approximate their fair values.

4 OTHER INCOME

	For the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011 HK\$	For the three months ended 31 March 2012 HK\$
Other income		
Interest income from bank balance	22	26

5 EXPENSES BY NATURE

Expenses included in administrative expenses are analyzed as follows:

	For the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011 HK\$	For the three months ended 31 March 2012 HK\$
Legal and professional fee	6,720	—
Bank charges	300	1,195
Total administrative expenses	7,020	1,195

Auditor's remuneration was Nil during the Relevant Periods.

6 DIRECTOR'S EMOLUMENTS

During the Relevant Periods, the director's fees or other emoluments in respect of its services to the Target Company were Nil.

During the Relevant Periods, the director did not waive any emoluments. No emoluments were paid by the Target Company to the director as an inducement to join or upon joining the Target Company or as compensation for loss of office during the Relevant Periods.

7 TAXATION

The Target Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the Relevant Periods.

The tax on the Target Group's loss before taxation differs from the theoretical amount that would arise using the tax rate applicable to the loss of the Target Group as follows:

	For the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011 HK\$	For the three months ended 31 March 2012 HK\$
Loss before taxation	(6,998)	(1,169)
Tax calculated at domestic tax rates applicable to the profit or loss in the respective countries	(1,155)	(193)
Expenses not deductible for tax purposes	1,155	193
	<u>—</u>	<u>—</u>

8 DIVIDEND

No dividend has been paid or declared by the Target Company since its incorporation.

9 INVESTMENTS IN SUBSIDIARIES — TARGET COMPANY**(a) Investments in subsidiaries**

	As at 31 December 2011 HK\$	As at 31 March 2012 HK\$
Unlisted shares, at cost	<u>1</u>	<u>1</u>

Estate Giant Limited ("Estate Giant") was incorporated on 11 July 2011 and it is held by Yuan Shun Investments Limited since it was incorporated. On 11 January 2012, Estate Giant established a wholly-foreign owned enterprise in the People's Republic of China (the "PRC"), namely Beijing Beihu Business Consulting Company Limited.

As at the date of this report, the Target Company has direct and indirect interests in the following subsidiaries:

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Economic interest attributable to the Target Group	
						Directly	Indirectly
<u>Directly held</u>							
Estate Giant Limited	Hong Kong	11 July 2011	Limited liability company	Investment holding in Hong Kong	HK\$1	100%	—
<u>Indirectly held</u>							
Beijing Beihu Business Consulting Company Limited (北京北湖商務諮詢有限公司)	The PRC	11 January 2012	Wholly-foreign owned enterprise	Business consulting in the PRC	US\$50,000	—	100%

(b) Amount due to a subsidiary

	As at 31 December 2011 HK\$	As At 31 March 2012 HK\$
Amount due to a subsidiary	<u>1</u>	<u>1</u>

The amount due to a subsidiary was unsecured, interest-free and had no fixed payment terms. The balance was denominated in Hong Kong dollar.

10 PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK\$
At 9 June 2011 (date of incorporation of the Target Company), 31 December 2011 and 1 January 2012	
Cost	—
Accumulated depreciation	—
Net book amount	—
For the three months ended 31 March 2012	
Opening net book amount	—
Additions	1,110,289
Closing net book amount	1,110,289
At 31 March 2012	
Cost	1,110,289
Accumulated depreciation	—
Net book amount	1,110,289

11 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

Target Group

	As at 31 December 2011 HK\$	As at 31 March 2012 HK\$
Loans and receivables		
Assets as per consolidated balance sheets		
Amount due from the immediate holding company (<i>Note 16</i>)	8	8
Cash and cash equivalents (<i>Note 12</i>)	793,002	786,295
Total	793,010	786,303
Other financial liabilities at amortized cost		
Liabilities as per consolidated balance sheets		
Other payable	—	1,110,289
Loan from the Ultimate Shareholder (<i>Note 16</i>)	800,000	794,462
Total	800,000	1,904,751

Target Company

	As at 31 December 2011 HK\$	As at 31 March 2012 HK\$
Loans and receivables		
Asset as per balance sheets		
Amount due from the immediate holding company	8	8

12 CASH AND CASH EQUIVALENTS

	As at 31 December 2011 HK\$	As at 31 March 2012 HK\$
Cash at bank	<u>793,002</u>	<u>786,295</u>
Maximum exposure to credit risk	<u>793,002</u>	<u>786,295</u>

The Target Group's cash and cash equivalents were denominated in the following currencies:

	As at 31 December 2011 HK\$	As at 31 March 2012 HK\$
HK\$	793,002	9,108
US\$	<u>—</u>	<u>777,187</u>
	<u>793,002</u>	<u>786,295</u>

13 SHARE CAPITAL

The Target Company was incorporated on 9 June 2011 with an authorized capital of 50,000 ordinary shares of US\$1 each.

	As at 31 December 2011 HK\$	As at 31 March 2012 HK\$
Authorized 50,000 ordinary shares of US\$1 each	<u>387,500</u>	<u>387,500</u>
Issued and fully paid 1 ordinary share of US\$1 each	<u>8</u>	<u>8</u>

On 9 June 2011 (date of incorporation of the Target Company), one ordinary share was issued at a par value of US\$1 per share to Smart Concept Enterprise Limited.

On 16 March 2012, Smart Concept Enterprise Limited has pledged its interests in the entire issued share capital of the Target Company to a Hong Kong financial institution in connection with a loan facility of HK\$195 million. Pursuant to the Sales and Purchase agreement entered between Unique Talent Group Limited, a wholly owned subsidiary of the Company, and Smart Concept Enterprise Limited, Smart Concept Enterprise Limited will release the pledge prior to the completion of the proposed acquisition of the Target Company's share by Unique Talent Group Limited.

14 RESERVES

Target Group

	Accumulated losses HK\$	Total HK\$
For the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011		
Loss and total comprehensive loss for the period	(6,998)	(6,998)
Balance at 31 December 2011	(6,998)	(6,998)
Balance at 1 January 2012	(6,998)	(6,998)
Loss and total comprehensive loss for the three months ended 31 March 2012	(1,169)	(1,169)
Balance at 31 March 2012	(8,167)	(8,167)

15 NOTE TO CONSOLIDATED CASH FLOW STATEMENTS

Cash used in operations

	For the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011 HK\$	For the three months ended 31 March 2012 HK\$
Loss before taxation	(6,998)	(1,169)
Adjustment for:		
— Interest received	(22)	(26)
Change in working capital:		
— Amount due from the immediate holding company	(8)	—
Cash used in operations	(7,028)	(1,195)

Non-cash transaction

During the three months ended 31 March 2012, the non-cash transaction of HK\$1,110,289 (equivalent to approximately RMB900,000) represented the purchase of property, plant and equipment which has not yet been settled as at 31 March 2012. The unsettled amount has been recognized as “other payable” as at 31 March 2012.

16 RELATED PARTY TRANSACTIONS

The Target Group is controlled by Smart Concept Enterprise Limited, a company incorporated in the British Virgin Islands. The ultimate controlling party of the Target Group is Mr. Yuen Hoi Po.

Balances with related parties:

The Target Group and the Target Company had the following balances with related parties.

	As at 31 December 2011 HK\$	As at 31 March 2012 HK\$
Target Group		
Amount due from the immediate holding company	<u>8</u>	<u>8</u>
Loan from the Ultimate Shareholder	<u>800,000</u>	<u>794,462</u>
Target Company		
Amount due from the immediate holding company	<u>8</u>	<u>8</u>

As at 31 December 2011 and 31 March 2012, these balances were interest-free, unsecured, repayable on demand and approximated their fair values. The amount due from the immediate holding company and the loan from the Ultimate Shareholder were denominated in US dollars and Hong Kong dollars, respectively.

17 CAPITAL COMMITMENT

As at 31 December 2011 and 31 March 2012, capital expenditure contracted for but not provided for is as follows:

	As at 31 December 2011 HK\$	As at 31 March 2012 HK\$
Property, plant and equipment Not later than 1 year	<u>—</u>	<u>732,600</u>
	<u>—</u>	<u>732,600</u>

18 SUBSEQUENT EVENTS

The following event took place subsequent to 31 March 2012:

- (i) On 11 April 2012, the Target Group has entered into a subcontracting agreement with a PRC subcontractor in relation to the development of the Subject Land with an estimated contract sum of approximately RMB800 million.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 March 2012 up to the date of this report. No dividend or distribution has been declared or made by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 March 2012.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**Introduction**

The following is an illustrative and unaudited pro forma financial information of the Enlarged Group (“Unaudited Pro Forma Financial Information”), including the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of 100% of the issued share capital of Yuan Shun Investments Limited (the “Target Company”) (the “Transaction”) by Unique Talent Group Limited, a wholly owned subsidiary of the Company, as if it had taken place on 31 December 2011 for the unaudited pro forma consolidated balance sheet and on 1 January 2011 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the balance sheet, results of operations and cash flows of the Group had the Transaction been completed as at 31 December 2011 or 1 January 2011, where applicable, or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this Circular.

(a) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

	Pro forma adjustments						
	The Group as at 31 December 2011 HK\$'000 Note 1	Target Group as at 31 March 2012 HK\$'000 Note 2	Other pro forma adjustments				Pro forma Enlarged Group HK\$'000
			HK\$'000 Note 3	HK\$'000 Note 4	HK\$'000 Note 5	HK\$'000 Note 8	
NON-CURRENT ASSETS							
Property, plant and equipment	340,655	1,110			740		342,505
Intangible assets	520,586	—		1,045,656			1,566,242
Goodwill	—	—		215,986		(794)	215,192
Investment properties	414,395	—					414,395
Investment in a subsidiary	—	—	1,000,220	(1,000,220)			—
Interest in an associated company	292,330	—					292,330
Deferred tax assets	25,882	—					25,882
Other non-current assets	1,644	—					1,644
	1,595,492	1,110					2,858,190
CURRENT ASSETS							
Exclusive advertising agency right	18,503	—					18,503
Trade receivables	18,018	—					18,018
Inventories	15,527	—					15,527
Amounts due from a jointly controlled entity and its subsidiaries	96,121	—					96,121
Financial assets at fair value through profit or loss	14,600	—					14,600
Prepayments, deposits and other receivables	74,425	—					74,425
Cash and cash equivalents	200,606	786	(50,000)				151,392
	437,800	786					388,586

	Pro forma adjustments						
	The Group as at 31 December 2011 HK\$'000 Note 1	Target Group as at 31 March 2012 HK\$'000 Note 2	Other pro forma adjustments				Pro forma Enlarged Group HK\$'000
			HK\$'000 Note 3	HK\$'000 Note 4	HK\$'000 Note 5	HK\$'000 Note 8	
CURRENT LIABILITIES							
Agency fee payables	143,265	—					143,265
Trade payables	7,170	—					7,170
Receipt in advance, other payables and accrued liabilities	253,073	1,110			740		254,923
Amount due to an associated company	35,105	—					35,105
Deferred revenue	75,383	—					75,383
Current income tax liabilities	79,998	—					79,998
Loan from the Ultimate Shareholder	—	794				(794)	—
	593,994	1,904					595,844
Net current liabilities	(156,194)	(1,118)					(207,258)
Total assets less current liabilities	1,439,298	(8)					2,650,932
NON-CURRENT LIABILITIES							
Other payables	24,860	—					24,860
Deferred revenue	56,509	—					56,509
Deferred tax liabilities	181,318	—		261,414			442,732
Borrowings	—	—	628,810				628,810
	262,687	—					1,152,911
NET ASSETS/ (LIABILITIES)	1,176,611	(8)					1,498,021
Equity							
Capital and reserves attributable to the equity holders of the Company	1,176,154	(8)	321,410	8			1,497,564
Non-controlling interests	457	—					457
Total equity	1,176,611	(8)					1,498,021

(b) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE
ENLARGED GROUP

	Pro forma adjustments				
	The Group for the year ended 31 December 2011 <i>HK\$'000</i> <i>Note 1</i>	Target Group for the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011 <i>HK\$'000</i> <i>Note 2</i>	Other pro forma adjustments <i>HK\$'000</i> <i>Note 6</i> <i>HK\$'000</i> <i>Note 7</i>		Pro forma Enlarged Group <i>HK\$'000</i>
Sales	125,224	—			125,224
Cost of sales	<u>(94,226)</u>	<u>—</u>			<u>(94,226)</u>
Gross profit	30,998	—			30,998
Other income and other gains, net	49,480	—			49,480
Marketing and selling expenses	(2,430)	—			(2,430)
Administrative expenses	(75,750)	(7)	(39,634)	(3,840)	(119,231)
Provision for impairment of intangible assets	(11,596)	—			(11,596)
Share of profit of an associated company	9,754	—			9,754
Finance costs	<u>(6,393)</u>	<u>—</u>	(75,635)		<u>(82,028)</u>
Loss before taxation	(5,937)	(7)			(125,053)
Taxation	<u>(11,690)</u>	<u>—</u>	7,195		<u>(4,495)</u>
Loss for the year	<u><u>(17,627)</u></u>	<u><u>(7)</u></u>			<u><u>(129,548)</u></u>
Attributable to:					
Equity holders of the Company	(17,779)	(7)			(129,700)
Non-controlling interests	<u>152</u>	<u>—</u>			<u>152</u>
	<u>(17,627)</u>	<u>(7)</u>			<u>(129,548)</u>

(c) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE
ENLARGED GROUP

	Pro forma adjustments				
	The Group for the year ended 31 December 2011 HK\$'000 Note 1	Target Group for the period from 9 June 2011 (date of incorporation of the Target Company) to 31 December 2011 HK\$'000 Note 2	Other pro forma adjustments HK\$'000 Note 3 HK\$'000 Note 7		Pro forma Enlarged Group HK\$'000
Cash flows from operating activities					
Cash used in operations	(2,544)	(7)		(3,840)	(6,391)
Income tax paid	<u>(4,154)</u>	<u>—</u>			<u>(4,154)</u>
Net cash used in operating activities	<u>(6,698)</u>	<u>(7)</u>			<u>(10,545)</u>
Cash flows from investing activities					
Interest received	1,016	—			1,016
Purchases of property, plant and equipment	(4,336)	—			(4,336)
Acquisition of subsidiaries and jointly controlled entities					
— net of cash acquired	(276,754)	—	(49,200)		(325,954)
Disposal of subsidiaries	82,017	—			82,017
Purchases of intangible assets	(64,274)	—			(64,274)
Disposals of property, plant and equipment	283	—			283
Disposals of intangible assets	34,905	—			34,905
Deposits refunded for lapsed proposed disposal	<u>(40,000)</u>	<u>—</u>			<u>(40,000)</u>
Net cash used in investing activities	<u>(267,143)</u>	<u>—</u>			<u>(316,343)</u>
Cash flows from financing activities					
Proceeds from issuance of shares on rights issue and placements — net of expenses	251,067	—			251,067
Proceeds from the loan from the Ultimate Shareholder	—	800			800
Repayment of the loan from the Ultimate Shareholder	<u>—</u>	<u>—</u>	(800)		<u>(800)</u>
Net cash generated from financing activities	<u>251,067</u>	<u>800</u>			<u>251,067</u>
Net (decrease)/increase in cash and cash equivalents	(22,774)	793			(75,821)
Cash and cash equivalents at 1 January	236,678	—			236,678
Exchange losses on cash and cash equivalents	<u>(13,298)</u>	<u>—</u>			<u>(13,298)</u>
Cash and cash equivalents at 31 December	<u>200,606</u>	<u>793</u>			<u>147,559</u>

(d) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The amounts are extracted from the audited consolidated balance sheet of the Group as at 31 December 2011, and the audited consolidated income statement and the audited consolidated cash flow statement of the Group for the year ended 31 December 2011, as set out in the published annual report of the Company for the year ended 31 December 2011.
2. The amounts are extracted from the financial information of the Target Group, as set out in Appendix II to this Circular.
3. The adjustment represents the consideration of the Transaction which will be settled in the following manner:

- HK\$50,000,000 of the consideration shall be paid in cash on Completion;
- Issuance of a promissory note with principal amount of HK\$150,000,000 by Unique Talent Group Limited, a wholly-owned subsidiary of the Company (the “Promissory Note”) on Completion. The Promissory Note shall bear interest at the best lending rate of The Hongkong and Shanghai Banking Corporation Limited, which shall be payable in 24 months since the date of issue. The Promissory Note shall be measured at fair value on Completion. For the purpose of this Unaudited Pro Forma Financial Information, the fair value of the Promissory Note as at 31 December 2011 is estimated to be HK\$135,132,000 by the Directors, after taking reference to a separate valuation report dated 8 August 2012 for the purpose of determining the fair value of the consideration of the Transaction prepared by an independent valuer, American Appraisal China Limited (the “Valuation Report”).

According to the Valuation Report, the fair value of the Promissory Note is determined by using discounted cash flow analysis, which represents the present value of the redemption price and the interest in arrear discounted at a rate of approximately 10.56% (rounded to 10.5%).

Calculation and key assumptions used in determining the discount rate extracted from the Valuation Report are as follows:

Discount rate = risk free rate + spread of comparable bond + lack of marketability discount + project specific risk premium

Note:

- (i) risk free rate of 0.38% is determined with reference to the yield of 2-year Hong Kong Government Bond with comparable maturity period as of 31 December 2011;
- (ii) spread of comparable bond of 7.5% is determined with reference to the coupon rates of comparable bonds. Considering that there is no bond issuer having developing properties that could not be sold (which is the case for the Target Group), the selection criteria has been extended to real estate property

developers. The selection bases include (1) bullet bonds issued from 1 January 2011 to 30 June 2012; (2) the issuer or its ultimate holding company is principally engaged in property development in the PRC; and (3) the issuer or its ultimate holding company is listed in Hong Kong.

Based on the above criteria, eleven comparable bonds were selected. Their coupon rates range from 5% to 13%, with an average result of 10%. As the Promissory Note will be matured in 24 months, while the comparable bonds have various maturities and were issued in different currencies (e.g. USD or RMB), the coupon rates have to be adjusted by these factors and the spread of 7.5% in average was applied;

- (iii) lack of marketability discount of 0.23%. Considering that the Promissory Note is not publicly traded, premium for lack of marketability discount of 0.23% (referenced to the study by Chen, Lesmond and Wei (2005) which states that the yield accounting for liquidity increase by 0.82% for every 1% increase in transaction cost for non-investment grade bond) was added; and
- (iv) project specific risk premium of 2.45% was applied to account for the specific risks, including early stage of development.

The Promissory Note is recognized initially at fair value, net of transaction costs incurred. It is subsequently carried at amortized cost using the effective interest method.

- The remaining consideration shall be settled by issuance of a zero coupon convertible note with principal amount of RMB569,000,000 (equivalent to approximately HK\$700,000,000) by the Company which will mature upon 36 months from the date of issue (the “Convertible Note”) on completion. From the date of issue to the third anniversary from the date of issue of the Convertible Note (the “Conversion Period”), the holder shall have the right to convert the whole or part of the principal amount to the new shares of the Company at a price of RMB0.0813 (equivalent to approximately HK\$0.1) per share. The Convertible Note shall be measured at fair value on Completion considering both the fair values of the debt component and the equity component.

The debt component of the Convertible Note is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the Convertible Note as a whole and the fair value of the debt component. Any directly attributable transaction costs are allocated to the debt and equity components in proportion to their initial carrying amounts.

For the purpose of this Unaudited Pro Forma Financial Information, the fair value of the Convertible Note is estimated by the Directors to be HK\$815,088,000, which comprises the fair value of debt component of HK\$493,678,000 and fair value of the equity component of HK\$321,410,000 as at 31 December 2011. The fair values of the Convertible Note are determined using option pricing method based on the key assumptions including volatility of daily stock price return of 63.4%, which is based on annualized standard deviation of daily stock price return of the Company over the past 3 years extracted from Bloomberg and risk free rate of 0.56%, based on market yield of Hong Kong government bonds with maturity of 3 years as at 31 December 2011 which is the observable period consistent with the maturity of the Convertible Bond.

According to the Valuation Report, the fair value of the debt component of the Convertible Note is determined by using discounted cash flow analysis, which represents the present value of the redemption price discounted at a fair market rate of approximately 10.8%:

Calculation and key assumptions used in determining the discount rate extracted from the Valuation Report are as follows:

Discount rate = risk free rate + spread of comparable bond + lack of marketability discount + project specific risk premium

Note:

- (i) risk free rate of 0.56% is determined with reference to the yield of 3-year Hong Kong Government Bond with comparable maturity period as of 31 December 2011;
- (ii) spread of comparable bond of 7.5% is determined with reference to the coupon rates of comparable bonds. Considering that there is no bond issuer having developing properties that could not be sold (which is the case for the Target Group), the selection criteria has been extended to real estate property developers. The selection bases include (1) bullet bonds issued from 1 January 2011 to 30 June 2012; (2) the issuer or its ultimate holding company is principally engaged in property development in the PRC; and (3) the issuer or its ultimate holding company is listed in Hong Kong.

Based on the above criteria, eleven comparable bonds were selected. Their coupon rates range from 5% to 13%, with an average result of 10%. As the debt component of the Convertible Note will be matured in 3 years, while the comparable bonds have various maturities and were issued in different currencies (e.g. USD or RMB), the coupon rates have to be adjusted by these factors and the spread of 7.5% in average was applied;

- (iii) lack of marketability discount of 0.23%. Considering that the Promissory Note are not publicly traded, premium for lack of marketability discount of 0.23% (referenced to the study by Chen, Lesmond and Wei (2005) which states that the yield accounting for liquidity increase by 0.82% for every 1% increase in transaction cost for non-investment grade bond) was added; and
- (iv) project specific risk premium of 2.45% was applied to account for its specific risks, including early stage of development.

The difference between the discount rate of 10.8% applied to calculate the fair value of the debt component of the Convertible Note and the effective interest rate of 12.4% as disclosed in Note 6 below represents the adjustment for the expected exchange rate movement. When estimating the fair value of the debt component of Convertible Note of HK\$493,678,000, the independent valuer has adopted the 3-year forward exchange rate of HK\$ to RMB of 1.1798 (extracted from Bloomberg) to estimate the HK\$ equivalent of the principal amount of RMB569,000,000. On the other hand, for the purpose of calculation of effective interest expense, the Directors have adopted the spot exchange rate of HK\$ to RMB of 1.236 (extracted from website of the People's Bank of China) to estimate the HK\$ equivalent of the principal amount of RMB569,000,000. The difference between the 3-year forward exchange rate and the spot exchange rate represents a market expectation of potential fluctuation of HK\$ to RMB in the future three years. The expected annual fluctuation rate is equivalent to

$((1.236/1.1798)^{(1/3)} - 1)$, or equals to 1.6% per annum. Adding this adjustment for expected exchange rate movement per annum of 1.6% to the discount rate of 10.8% above come up with the effective interest rate of 12.4% as disclosed in Note 6 below.

For the purpose of the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the Promissory Note and Convertible Note as at 31 December 2011, after taking reference to the Valuation Report. Such valuation report is different from that in Appendix IV which is in relation to the fair value of the development and operation rights of the Subject Land. No separate valuation report as at 1 January 2011 was prepared for the purpose of the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement. Had this report been prepared, the amounts of the fair values of the Promissory Note and Convertible Note may be different from the amounts presented above and the difference may be significant.

For the purpose of the unaudited pro forma consolidated income statement, as it is prepared on the basis that the Transaction had taken place on 1 January 2011, the interest accretion expenses using effective interest method in relation to the Promissory Note and debt component of the Convertible Note for the year ended 31 December 2011 shall be considered as mentioned in Note 6 below.

Since the fair values of the Promissory Note and Convertible Note to be issued at the Completion date may be substantially different from their fair values used in preparing this Unaudited Pro Forma Financial Information, the amount of the consideration and, accordingly, the amount of investment cost of the Company at the Completion date may be different from the amounts presented above and the difference may be significant.

For the purpose of the unaudited pro forma consolidated cash flow statement, the Directors have assumed that all remaining indebtedness of the Target Group will be offset against the cash consideration for the purpose of discharging all outstanding indebtedness of the Target Group by the Vendor before the Completion of the Transaction pursuant to the Sales and Purchase agreement as mentioned in Note 8 below.

4. Upon completion of the Transaction, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard No. 3 (Revised), "Business Combinations".

For the purpose of the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the identifiable assets and liabilities of the Target Group, after taking reference of a separate valuation report dated 8 August 2012 for the purpose of determining the preliminary fair value of identified intangible asset prepared by the independent valuer (American Appraisal China Limited). Such valuation report is different from that in Appendix IV which is in relation to the fair value of the development and operation rights of the Subject Land. No separate valuation report as at 1 January 2011 was prepared for the purpose of this Unaudited Pro Forma Financial Information. Had this report been prepared, the amounts of the fair values of the identifiable assets and liabilities, and, accordingly, the amount of gains on the excess of fair value of net identifiable assets

acquired over the cost of acquisition or goodwill for the compilation of the Unaudited Pro Forma Financial Information of the Enlarged Group may be different from the amounts presented above and the difference may be significant.

The fair value adjustment comprise (i) recognition of cooperating development and operating agreement as intangible assets of HK\$1,045,656,000; and (ii) the related tax adjustments of HK\$261,414,000 arising from the fair value adjustments on the intangible assets based on the applicable tax rate.

The excess amount of the consideration over the Group's share of the fair value of the net identifiable assets of the Target Group is recognized as goodwill.

The goodwill arising in the acquisition of the Target Group is calculated as follows:

	<i>HK\$'000</i>
Consideration	1,000,220
Less: Identified assets acquired and liabilities assumed*	<u>(784,234)</u>
Goodwill	<u>215,986</u>
	<i>HK\$'000</i>
* Net liabilities of the Target Group as at 31 March 2012	(8)
Fair value of the intangible assets	1,045,656
Effect on deferred tax liabilities estimated at the tax rate of 25%	<u>(261,414)</u>
Identified assets acquired and liabilities assumed	<u>784,234</u>

Since the fair values of the consideration and the assets and liabilities of the Target Group at the Completion date may substantially different from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the final amounts of the identified net assets (including intangible assets) and goodwill to be recognized in connection with the Transaction may be different from the amounts presented here and the differences may be significant. For the purpose of this Unaudited Pro Forma Financial Information, the directors consider that no impairment in the value of property, plant and equipment, intangible assets and goodwill is considered necessary.

The adjustment also includes consolidation entries for the elimination of investment cost of the Company and share capital and reserve of the Target Group.

- The amounts represent the adjustments to the assets and liabilities of the Target Group at the Completion date relating to the capitalization of design construction cost incurred in relation to the obtaining of the relevant licenses or certificates for the development and operation of the Subject Land, and recognition of the corresponding payable.

Under the Second Cooperation Agreement entered between the Target Group and Beijing Chao Lai, the Target Group agrees to reimburse all the costs incurred by Beijing Chao Lai in relation to obtaining relevant licenses or certificates on the development and operation of the Subject Land. Beijing Chao Lai has entered into a construction design agreement with a company located in the PRC to prepare the design and construction plan for the purpose of obtaining the relevant licenses or certificate, with a total contract sum of RMB1,500,000 (equivalent to HK\$1,850,000). The Target Group is entitled to the right to use of Beijing Chao Lai in relation to the design and construction plan. For the purpose of the Unaudited Pro Forma Financial Information, these construction costs are assumed to have been incurred and payable by the Target Group before the Transaction, which shall be adjusted to the assets and liabilities of the Target Group on Completion. As of 31 March 2012, the Target Group has recognized a payable of RMB900,000 (equivalent to approximately HK\$1,110,000), based on the progress in accordance with this construction design agreement out of the total contract sum of RMB1,500,000 (equivalent to approximately HK\$1,850,000). The adjustment of RMB600,000 (equivalent to approximately HK\$740,000) represent the outstanding portion under this construction design agreement.

6. The adjustments represent:

- (i) the amortization of intangible asset arising from cooperating development and operating agreement amounting to HK\$28,780,000 and the related deferred tax impact of HK\$7,195,000 as a consequence of the recognition of cooperating development and operating agreement and the deferred tax liabilities in Note 4 above. The annual amortization expense is calculated using the straight-line method to allocate the cost of the intangible asset arising from cooperating development and operating agreement of HK\$1,045,656,000 over its remaining lease term of 36.3 years.
- (ii) the operating lease expense in relation to Second Cooperation Agreement. For the purpose of the unaudited pro forma consolidated income statement, which is prepared on the basis that the Second Cooperation Agreement had been entered as at 1 January 2011. Under the Second Cooperation Agreement, the Target Group shall pay the annual fee of RMB6 million, which is subject to an increase of 10% every 5 years starting from 1 June 2013. The amount of HK\$10,854,000 represents an effective annual operating lease expense recognised under a straight-line basis over the remaining operating lease period (i.e 36.3 years as at 1 January 2011).
- (iii) the annual effective interest expenses of HK\$75,635,000 related to the Promissory Note and the Convertible Note. The annual effective interest expenses of the Promissory Note and Convertible Note of HK\$14,189,000 and HK\$61,446,000, respectively, and are calculated by multiplying the outstanding principal amount as at 1 January 2011 by the effective interest rates of 10.5% and 12.4%, respectively.

Different effective interest rates have been applied to the Promissory Note and the Convertible Note because of the differences in (i) exposure in foreign exchange risk as the Promissory Note will be settled in HK\$, while the Convertible Note is settled in RMB; (ii) investment period as the Promissory Note will be payable in 24 months since the date of issue, while the Convertible Note will mature upon 36 months from the date of issue.

7. The adjustment represents the estimated transaction costs of approximately HK\$3.8 million payable by the Company in connection with the Transaction, which is assumed to be paid within one year after the Completion of the Transaction.

This adjustment is not expected to have continuing effect on the Enlarged Group's consolidated income statement and consolidated cash flow statement.

8. The adjustment represents the discharge of all outstanding indebtedness of the Target Group by the Vendor before the Completion of the Transaction pursuant to the Sales and Purchase agreement. For the purpose of this Unaudited Pro Forma Financial Information, the Directors have assumed that they will exercise their right to request the Vendor to discharge all remaining indebtedness of the companies within the Target Group. The indebtedness covers the loan from the Ultimate Shareholder which excludes the payable arising from construction or ordinary course of operation.
9. Other than the above adjustments, no adjustments have been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 December 2011.

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

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



羅兵咸永道

8 August 2012

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF MEDIA CHINA CORPORATION LIMITED**

We report on the unaudited pro forma financial information set out on pages 171 to 182 under the heading of "Unaudited Pro Forma Financial Information" (the "Unaudited Pro Forma Financial Information") in Appendix III of the circular dated 8 August 2012 (the "Circular") of Media China Corporation Limited (the "Company"), in connection with the proposed acquisition of Yuan Shun Investments Limited (the "Transaction") by Unique Talent Group Limited, a wholly-owned subsidiary of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transaction might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 171 to 182 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare 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 Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form 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.

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Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated balance sheet as at 31 December 2011, audited consolidated income statement and audited cash flow statement of the Group for the year ended 31 December 2011 as set out in the “Unaudited Pro Forma Financial Information” section of this Circular with the financial information of the Group as set out in Appendix I of this Circular, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that 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.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2011 or any future date, or
- the results and cash flows of the Group for the year ended 31 December 2011 or any future periods.

OPINION

In our opinion:

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

American Appraisal China Limited
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Leading / Thinking / Performing



8 August 2012

The Directors
Media China Corporation Limited
Room 3503,
Tower 2, Lippo Centre,
89 Queensway,
Hong Kong

Dear Sirs,

Pursuant to the terms, conditions and purpose of an engagement agreement dated 30 August 2011 (“Engagement Agreement”) between Media China Corporation Limited (“Company” or “Client”) and American Appraisal China Limited (“American Appraisal”), we have completed the valuation analysis (“Valuation”) of the 100% interest in a proposed hotel and conferencing facilities development project (“Proposed Project”) related to the development and operation rights of a land located at Beijing Chao Lai Football Activities Centre with area of approximately 387,000 square meters (the “Subject Land”) injected to Yuan Shun Investments Limited (“Yuan Shun” or the “Target Company”) on 30 January 2012. We understand that the Company contemplates the acquisition of the above mentioned interest. The Valuation is prepared as of 31 December 2011 (“Valuation Date”) using assumptions and information provided by the Company.

Between the Valuation Date and the issue date of this report, as the Company confirmed that the business plan on the Proposed Project remains the same, and having considered that no latest market data released by recognized institutes that significantly different from the assumptions adopted by the Company, and the Proposed Project is at very beginning stage of development, no substantial differences is expected on our conclusion. Following theses bases, the management of the Company (the “Management”) believes that this valuation has incorporated relevant and timely information.

Yuan Shun is an investment holding company, holding the interest in the entire issued share capital of a subsidiary, Estate Giant Limited, which is incorporated in Hong Kong (the “Hong Kong Company”). The sole asset of the Hong Kong Company is the interest in the entire issued share capital of a company incorporated in the PRC (the “PRC Company”), which was established on 11 January 2012 (collectively refer to the “Target Group”) as a holding vehicle of the Proposed Project. Save the Second Cooperation Agreement entered by the PRC Company (“Second Cooperation Agreement”) on 30 January 2012, the PRC Company did not engage in any other business as of the Valuation Date.

We understand that the Company, with our consent, discloses this letter in the circular to the shareholders and to The Stock Exchange of Hong Kong Limited (“Stock Exchange”) in accordance with the requirements of the Rules Governing the Listing of Securities on Stock Exchange (“Listing Rules”). No third party is entitled to rely on our report. We accept no responsibility or liability to any third party whatsoever in respect of the contents.

This report identifies the asset appraised, describes the scope of work, states the basis of value, specifies key inputs and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. In preparing our report, we aim to largely comply with the reporting standards recommended by the International Valuation Standards Council (“IVSC”). This letter is intended to present only a summary discussion of the data, reasoning, major assumptions and analyses that were used by American Appraisal to develop the opinion of value. Supporting documentation concerning these matters has been retained in our work papers.

PURPOSE OF VALUATION AND SCENARIO ANALYSIS

The Company intends to acquire 100% equity interest of the Target Company (“Proposed Transaction”). As the Proposed Transaction constitutes a very substantial acquisition under Chapter 14 of the Listing Rules, a valuation report on the Proposed Project is included in the circular for dispatch to the shareholders of the Company.

In formulating our opinion and with Client’s approval and agreement, we have relied upon completeness, accuracy and fair representation of operational, financial information, business plan and findings of feasibility study provided by the Company. Since the Proposed Project is at very preliminary stage and has no historical track records, the fair value of the Proposed Project is subject to numerous assumptions adopted in the business plan and prospective financial information. To the extent that any of these assumptions or facts changed, the result of our fair value conclusion should be different. With respect to financial forecasts regarding the Company provided to or otherwise reviewed by or discussed with American Appraisal, it has been represented by the Management and was assumed for the purposes of this opinion that such analyses and forecasts were reasonably prepared based on assumptions reflecting the best currently available estimates and judgments of the Management as to the expected future results of operations and financial conditions of the Proposed Project or Target Group to which such analyses or forecasts relate. American Appraisal can give no assurances, however, that such financial analyses and forecasts can be realized or that actual results will not vary materially from those projected.

The intended use of the Valuation is to serve as basis for the compliance of the Listing Rules. The ultimate transaction, if happens, and the corresponding acquisition prices would be the results of negotiations between the transacting parties. Our valuation only form part of the information for the Client to consider and the responsibility for determining the fair value and the acquisition price of the Target Company rests solely with the Client. The results of our analysis should not be construed to be a fairness opinion, a solvency opinion, or an investment recommendation. It is inappropriate to use our valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the financial projections and underlying assumptions.

BASIS OF VALUE

We have appraised the Proposed Project on the basis of fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is generally interpreted to have the same definition of fair market value in continued use, which is defined as the estimated amount at which the company might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

DESCRIPTION OF THE TARGET GROUP AND PROPOSED PROJECT

The major asset of the Target Group is the Second Cooperation Agreement entered with 北京朝來足球活動中心 (Beijing Chao Lai Football Activities Centre) (“Beijing Chao Lai”), a collective ownership enterprise incorporated in the PRC. Pursuant to the Second Cooperation Agreement, the PRC Company has been granted the right to develop and operate on the Subject Land up to 31 May 2048. Based on the terms, the PRC Company has to pay an annual fee of RMB 6 million as pre-determined annual distribution to Beijing Chao Lai. The annual fee is subject to an increase of 10% every 5 years and the first fee increase is due in June 2013.

Referenced to the initial plan of the Company, the Proposed Project is the construction and operation of 80–100 premier low-density double storied villas with basement on the Subject Land with total floor area of 80,404 square meters. As the Subject Land locates next to Bayhood No.9 Club, a membership-based luxury club managed by the Company, the Company intends to develop the Subject Land into a deluxe low density residential community equipped with luxury amenities, gardening and adjacent to the golf course. As agreed in the Second Cooperation Agreement, the developments on the Subject Land could not be sold to external parties given the restriction of the land use right. Thus, all the villas shall operate in the form of hotel or served apartments for short to medium term leasing. It is planned to complete most villas by 2014.

ECONOMIC OUTLOOK

The major variables reviewed in order to evaluate the overall state of the national economy include the current level of and changes in the gross domestic product (GDP), exchange rate, and the inflation rate. An overview of economy of China, where businesses of the Target Group are transacted, was essential to develop this outlook. The following economic discussion was extracted from Economic Intelligence Unit “China: Country outlook” issued in March, 2012.

Economic Growth

In 2013–16 GDP growth will slow to an average of 8.1% a year. The rate of economic expansion in 2013 will be slightly higher as the policy relaxation of 2012 pushes up investment, but, in general, investment growth will moderate as higher input costs and rising interest rates make property and infrastructure development more costly. A rapid rate of job creation and rising wages should ensure strong growth in private consumption, while the ongoing development of social services will support growth in state spending. As domestic demand expands rapidly, import growth will outpace export expansion, with the consequence that net exports will subtract from GDP growth throughout 2012–16. Export expansion will nevertheless remain impressive, largely owing to emerging-market demand, despite the negative impact on overseas sales of a strengthening renminbi and rising costs in China.

Inflation

Consumer price inflation averaged 5.5% in 2011, despite the government's efforts to curb money supply growth in order to bring inflation closer to its 4% target. Inflation will decelerate to 3.8% on average 2012, as the delayed impact of the past monetary tightening feeds through and global commodity costs moderate. However, in the remainder of the forecast period strong liquidity growth, booming demand and increasing input costs will apply upward inflationary pressure. A sustained rise in salaries will also push up manufacturing costs, and this may prompt manufacturers to increase prices. Soaring wages will have a particularly strong impact on prices for labour-intensive agricultural products. We expect consumer price inflation to average 4.3% a year in 2013–16.

Exchange Rate

China's current-account and trade surpluses are both forecast to fall to modest levels as a proportion of GDP in the forecast period, and so the country will be in a strong position to resist external pressure to allow a faster rate of currency appreciation. Indeed, with the currency now probably close to market-driven levels, more volatility in the value of the renminbi is likely in 2012–16, including periodic bouts of depreciation. Overall, however, we believe that the renminbi will strengthen against the US dollar, by an average of 2.7% a year, in 2012–16, slower than the rate of 4.8% appreciation recorded in 2011. This partly reflects higher productivity growth in China than in the US. A faster rate of inflation in China than in OECD markets will also help to rebalance the real exchange rate.

INDUSTRY OVERVIEW

The industry discussions below were extracted from “Hotels and Motels in China” issued by Datamonitor in October 2011, “China Tourism Report” issued by Business Monitor International in August 2011, “China Hotel Industry Study 2011” issued by China Tourist Hotels Association and Horwath HTL in July 2011, “Quarterly Construction Cost Update” issued by Rider Levett Bucknall in March 2012 and feasible studies report provided by the Management.

Overview of hotel and motels industry in the PRC

The Chinese hotels & motels industry had total revenue of US\$59.5 billion in 2010, representing a compound annual growth rate (CAGR) of 10% for the period between 2006–2010. The performance of the industry is forecast to accelerate, with an anticipated CAGR of 12.7% for the five year period 2010–2015, which is expected to drive the industry to a value of US\$108 billion by the end of 2015.

The hotels & motels industry is strongly influenced by travel and tourism trends. The situation within the industry has changed significantly in recent years. The business used to be strong and the biggest challenge was finding space to book. Now that it is a buyer's market, most hotel sales people are faced with the challenge of finding customers. The recent global economic downturn had an adverse effect on the industry performance and now more than ever, most hoteliers are searching for demand generators and are relying on direct sales to impact revenues and fill the significant void left by ailing economy. However, the industry in China, unlike its global counterparts has been enjoying a healthy growth, which coupled with positive forecasts, attracts newcomers.

The number of star-rated hotels in China as a whole had reached 14,000 by 2007, an increase of nearly 420% since 1997. In Beijing, there were 700 star-rated hotels in 2007, with 160,700 rooms, and local estimates put the number of rooms at 151,000 by early 2008. Subject to the locations, room size or type of services provided, the room rates charged by 5-star hotels are various. According to the feasibility studies prepared by the Management in 2011, in which the market of high-end hotel and villas services in Beijing with similar positioning of the Proposed Project have been studied, for 5-star suites in Beijing, the charging rate is between RMB1,600 to RMB8,200 per day and the occupancy rate is approximately 60%–80%. These hotels are considered comparable in terms of locations, target customer base, planned development cost, nature of low density and green area in surroundings nearby. Among these hotels as list out in Table 1 below, Aman at Summer Palace, Beijing which focuses on villa-type accommodation services, from the Company's perspective, is also close to the Proposed Project in term of structural design, construction plan and low density and should not be excluded as representative villa type hotel. The current median daily room rates of comparable hotels which is less distorted by outliers is RMB48 per square meter and is also in line with the selected room rate of the Proposed Project in the first year of operation, two years from now. Based on the room size of each hotel, the average daily room rate is approximately RMB55 per square meter. It is in line with our market data observed and enquired.

Table1: Room rate of 5-star suites and occupancy rate in Beijing

5-star Hotel in Beijing	Occupancy		Room Rate (RMB/day)	Average Rental (RMB/day/sq.m.)
	Rate	Room Area (sq.m.)		
Aman at Summer Palace, Beijing (安縵頤和)	65%	78	8,220	105
Park Hyatt Beijing (柏悅酒店)	63%	50	3,795	76
Kempinski Hotel Beijing (凱賓斯基)	70%	36	2,024	56
Pangu Residences (盤古七星)	61%	50	2,746	55
Grand Hyatt Beijing (東方君悅)	80%	42	2,128	51
The St. Regis Beijing (瑞吉酒店)	73%	50	2,415	48
China World Hotel Beijing (中國大飯店)	72%	38	1,783	47
Hilton Hotel Beijing (希爾頓)	69%	54	2,415	45
Hotel Kunlun Beijing (崑崙飯店)	75%	44	1,980	45
The Great Wall Sheraton Hotel Beijing (長城喜來登)	73%	45	1,596	35
Regent Beijing (北京麗晶酒店)	65%	66	2,335	35
China World Summit Wing, Beijing (國貿大酒店)	78%	65	2,300	35
			Average	53
			Median	48
			Max.	105
			Min.	35
			Selected	55

Notes:

1. Extracted from feasibility studies prepared by the Management

By referencing China Hotel Industry Study 2011 and Quarterly Construction Cost Update, overall occupancy rate, EBITDA margin of 5-star hotels and construction cost in China were summarized in the table below.

Table 2: Occupancy rate, profit margin and average construction cost

	Beijing	Shanghai	China
(i) 5-star hotels occupancy rate and profit margin in 2010 (<i>note 1</i>)			
Sample size as no. of hotel	46	53	367
Occupancy rate	59%	66.5%	58.6%
EBITDA margin	36%	38%	34%
(ii) Approximate order of construction cost (<i>note 2</i>)			
Cost per square meter in Q4, 2011 (RMB)			
House, high quality	4,450–6,000	4,300–5,900	N/A
5 star hotels	12,100–15,900	12,000–15,600	N/A

Note 1: Sourced from China Hotel Industry Study 2011 issued by China Tourist Hotels Association (“CTHA”) and Horwath HTL. CTHA is a national non-profit organization formed in a voluntary manner with 2,700 members including local hotels, hotel management companies, suppliers and other relevant industry entities in China. Horwath HTL is management consulting division of Crowe Horwath International, an integrated professional organization of accounting and management consulting firm

Note 2: Sourced from Quarterly Construction Cost Update issued by Rider Levett Bucknall, an international professional quantity surveying firm

Overview of tourism industry in the PRC

Total arrivals to China grew by a slower than expected amount in H111, reaching 66.3 mn according to figures released by the China National Tourism Administration (CNTA). This represented growth of 1.15% year-on-year (y-o-y), below the 6.3% growth level seen in full-year 2010. In part, this reflects the traditional cycle of the tourism sector, with arrivals picking up towards the end of the year. However, it is certainly a concern that international arrivals have slowed, which may reflect slowing growth prospects for North American and EU economies.

The Chinese government has ambitious plans for the tourism industry. Figures from the World Travel & Tourism Council (WTTC) show that collective investment by the government in the industry has totaled in excess of US\$4 billion annually since 2001. China was the third largest recipient of foreign visitors in the world (in terms of aggregate numbers) in 2010. By 2020, the authorities say that they expect foreign exchange earnings from the industry to hit US\$58 billion (rising from US\$39 billion in 2009). Additionally, they anticipate that annual visitor numbers will reach 210 mn a year, up from 134 mn for 2010. Unsurprisingly, Hong Kong contributes the most visitors to China — about 60% in 2010. In terms of achieving the government’s ambitious targets for the tourism industry, two factors bode well: an easing of visa requirements and the progress of industry liberalisation and foreign investment. A significant proportion of foreign investment is being directed towards the hospitality

industry. The first foreign-managed hotel to open in China was the Jianguo in Beijing in 1982 by Hong Kong and Shanghai Hotels, but overseas activity has since exploded, particularly in recent years. Additionally, there has been significant progress in opening up travel agencies. As part of its entry to the World Trade Organization (WTO), China was obliged to liberalise this sector by 2005 but it began the process early.

INFORMATION SOURCES AND KEY ASSUMPTIONS

We have discussions with the “Management” with regard to the history of the Target Group, background of the Subject Land, operational rights and prospects of the Proposed Project and have performed an on-site inspection on the Subject Land. As a part of due diligence, we conducted an analysis of the economic outlook, industry overview and competitive environment to understand the demand and supply situation. In assessing the basis of the financial projections provided by the Management covering the period from 2012 to 2020 and extrapolated to 2048 (“Financial Projections”), we also performed a search and analysis of comparable companies, a review of certain financial data, operating statistics and other relevant documents. In searching comparable companies, 5-star hotels located in Beijing were considered in order to review the room rate and occupancy rate (shown in Industry Review section) as location is one of the major factors to determine the charging base. Because these hotels are private companies or represent one of the business units of public companies, to estimate the systemic risk component of discount rate, we searched another group of listed companies that engage in hotel businesses (shown in discount rate discussion below) as their share prices movements relative to overall equity market indexes (beta) are publicly available.

We considered that the Financial Projections and assumptions provided by the Management were prepared with due care and consideration and is appropriate for use in this valuation analysis. In the assessment of whether the Financial Projections are prepared in due care and consideration, we have performed the following review.

- Compare the assumption of daily room rate charged at RMB55 per square meter with the daily room rate of suite offered by 5-star hotels in Beijing as set out in the Table 1 of Industry Review and counter checked these room rates and room sizes independently according to the web site of each hotel. No substantial difference was found.
- Compare the assumption of 60% occupancy rate with the average 59% occupancy rate come up from 46 hotels at 5-star grade in Beijing extracted from China Hotel Industry Study 2011 as shown in the Table 2 of the Industry Review.
- Compare the assumption of 33% EBITDA margin with the average 36% EBITDA margin come up from 46 hotels at 5-star grade in Beijing extracted from China Hotel Industry Study 2011 as shown in the Table 2 of the Industry Review.
- Compare the assumption of initial investment cost amounted to RMB838 million, representing RMB10,000 per square meter to construct the villa, with the average construction cost observed for high-end house and 5-star hotels in Beijing ranging from RMB4,450–6,000 to RMB12,100–15,900 per square meter respectively, extracted from Quarterly Construction Cost Updates as shown in the Table 2 of the Industry Review.

As mentioned on the intended use of the valuation, the results of our analysis should not be construed to be a fairness opinion, a solvency opinion, or an investment recommendation. The indicated value of the Proposed Project is derived based on the assumptions provided by the Management. We made reference to or reviewed the following major documents and data:

- Financial Projections prepared by the Management
- Feasible studies report provided by the Management
- Market overview and project summary prepared by the Management
- Unaudited financial statements of the Target Group for the period from 9 June 2011 to 31 March 2012
- A copy of Sale and Purchase Agreement dated 25 May 2012
- A copy of the First Cooperation Agreement dated 16 May 2008
- A copy of the supplemental agreements to the First Cooperation Agreement dated 30 June 2008, 2005 and 4 July 2011 respectively
- A copy of the Second Cooperation Agreement dated 30 January 2012
- A copy of legal due diligence report issued on 24 May 2012
- Other industry reports sourced independently

We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by the Company are true and accurate and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading. In arriving at our opinion of value, we have considered the following principal factors:

- the preliminary stage of development of the Proposed Project and Target Group without track record by adding unsystematic risk premium in discount rate;
- current financial condition of the Proposed Project and Target Group so to include initial investment cost in cash out-flows to construct similar grade luxury hotels or villas;
- the Financial Projections provided by the Management as compared with market data;
- the economic outlook for China and specific competitive environments affecting the industry of the Proposed Project and Target Group in assessing long term growth rate, room rate, occupancy and profitability;

- the legal and regulatory issues of the Proposed Project and Target Group in general and other specific legal opinions relevant to the PRC Company and the Subject Land including the sale restriction on properties to be developed in determining the lack of marketability discount of the subject business as compared with freely transferred real properties;
- the risks of the Proposed Project and Target Group including system risk in hotel business as measured in beta in the process of discount rate estimation; and
- the experience of the Company's management team in hospitality business and operational synergies if any.

Due to the changing environments in which the Proposed Project and Target Group is operating, a number of assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation:

- no major changes are expected in political, legal and economic conditions in China;
- regulatory environment and market conditions for hotel industry will be developing according to prevailing market expectations;
- there will be no major changes in the current taxation law in China;
- the Proposed Project will not be constrained by the availability of finance or any other political or regulatory risks;
- exchange rates and interest rates will not differ materially from prevailing market expectations; and
- the Target Group will retain competent management, key personnel and technical staff to support their ongoing operations.

VALUATION METHODOLOGY OVERVIEW

In the appraisal of the equity, or the net assets, of a business, regardless of their diversity, location, or technological complexity, there are three basic approaches to value. The descriptive titles typically attached to these approaches are cost, income, and market. In normal circumstances, the appraiser is obliged to consider all three approaches, as any, or perhaps all, may provide reliable measures of value.

Cost approach established value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

To develop our opinion of value, the three generally accepted approaches to value are considered: cost, market and income. While useful for certain purposes, the cost approach is generally not considered applicable to the valuation of a going concern, as it does not capture future earning potential of the business. Thus it is not utilized in the valuation. To apply market approach, two major methods are considered, namely guideline company method (“GCM”) and guideline transaction method (“GTM”). The former makes use of price multiples (e.g. P/E) of comparable companies, while the latter takes reference of transaction prices available in the market (e.g. land transactions). In this exercise, both the GCM and GTM under the market approach are considered as not applicable. It is because the Target Group has no operation before, without any financial results or assets for benchmarking, we cannot apply the price multiples on the performance of the Target Group to derive the result. In using GTM, two factors should be taken into account when searching market transactions. Firstly, the Target Group would have no ownership on the Subject Land. Secondly, the Subject Land locates at ring 4 to 5, close to the prime area of Beijing City. Around the Valuation Date, we found no comparable transactions that the underlying lands have the similar premises as the Subject Land. Therefore, in forming our opinion, we rely upon the income approach to prepare a valuation analysis of the Proposed Project.

We consider that the departure from the IVSC, in respect of using various approaches to arrive at a valuation conclusion and the reliance on income approach only are permitted based on the reasons above and will not render the indicative value so derived not credible for intended use of this proposal. From the Management’s point of view, the value derived from the income approach is considered reasonably sufficient for the purpose of disclosure. The Management is also fully aware of our scope of work.

INCOME APPROACH

Discounted Cash Flow method known as a form of the income approach was used to value the Proposed Project. This method explicitly recognizes that the current value of an investment is premised upon the expected receipt of future economic benefits such as periodic income, cost savings, or sale proceeds. Indication of value is developed by discounting future net cash flow to the present value at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment. Discounted Cash Flow analysis is based on the timing on the occurrence of future free cash flows attributable to the Proposed Project and does not involve the application of accounting policies which govern income and expenses recognized on accrual basis and matching principle. As Discounted Cash Flow method is a cash flow concept, while accounting policy focuses on accrual basis, normally, we do not apply accounting policies in the Discounted Cash Flow method, for the reason of simplicity, as this method should take into account the timing on the occurrence of future cash flows.

In using Discounted Cash Flow method, we relied on Financial Projections prepared by the Management. Table 3 below presented the summary of the first 10-year estimations. Thereafter, most key items such as revenue and capital expenditure were extrapolated by 5% annual growth up to 2048.

Table 3 — Summary of Financial Projections in the first 10 years

(RMB'000)

	Year 1	2	3	4	5	6	7	8	9	10
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Completed floor area (m.)	—	32,000	80,404	80,404	80,404	80,404	80,404	80,404	80,404	80,404
Daily rental charge (RMB/sq.m)	—	55.00	57.75	60.64	63.67	66.85	70.20	73.71	77.39	81.26
Occupancy rate	—	25%	60%	60%	60%	60%	60%	60%	60%	60%
Revenue	—	158,400	1,002,959	1,053,107	1,105,763	1,161,051	1,219,104	1,280,059	1,344,062	1,411,265
EBITDA	(31,069)	52,272	330,977	347,525	364,902	383,147	402,304	422,419	443,540	465,717
	—	33%	33%	33%	33%	33%	33%	33%	33%	33%
Income tax expenses	—	—	(46,110)	(56,928)	(55,281)	(53,552)	(51,737)	(49,831)	(59,810)	(81,672)
Capital expenditure	(167,740)	(167,740)	(251,610)	(251,610)	(119,814)	(125,805)	(132,095)	(138,700)	(145,635)	(152,917)
Net cash flow (note 1)	(198,809)	(115,468)	33,257	38,988	189,806	203,790	218,472	233,889	238,095	231,129

Note 1: The minor difference from casting or arithmetic result is due to the decimal numbers were not shown.

Revenue

By referencing the average room rate and occupancy rate for high-end hotels in Beijing, it was assumed the Proposed Project could charge at RMB55 per square meters per day with annual occupancy rate of 60%, taking into account the seasonal factors during the year. As the Proposed Project is designed as an adjacent to Bayhood No. 9 Club, a membership-based luxury club managed by the Company, all the tenants of the Proposed Project can enjoy the unobstructed view of Bayhood No. 9 Club. In order to approach the target customers, including members of Bayhood No. 9 Club, the Company planned to work closely with the sale and marketing team of Bayhood No. 9 Club. The Company believes it will create considerable synergies and shortened the ramp up period to achieve the industry standard in terms of occupancy rate and profitability margin. To address the uncertainty to achieve the Financial Projections, particularly in first few years of operation, we have assigned project specific risk premium as discussed in the section of discount rate below.

As inflation was expected in China, annual growth rate of 5% was assumed on the rental charges. The growth rate is in line with the GDP and inflation estimation as discussed in the Economic Outlook. According to these studies, the GDP and the consumer price inflation from 2013 to 2016 were expected to be 8.1% and 4.3% respectively. Also, referenced to the research in the Industry Overview, the CAGR of the hotel and motel industry in China was estimated to be 12.7% from 2010 to 2015. Despite the current inflation in China slowing down to 3.8% in 2012, taking into account that other potential incomes on food and beverage have not yet been considered in the revenue stream, the assumption of 5% annual growth was considered as within the range of economic indicators as shown above.

Business, Property and Income tax

Industry standard business tax and income tax policy were applied in the discounted cash flow analysis.

Operating expenses and EBITDA

Operating expenses include land use right payment, general administrative expenses, salaries, depreciation, and overhead etc. For the land use right payment, the amount was estimated according to the Second Cooperation Agreement, which is RMB6 million per annum with 10% increase in every 5 years. Without historical track record as reference, the Management assumed the Target Group could achieve the operating results as the peers, which is around 33% of revenue in terms of EBITDA margin. It is in line with the result of 36%, come up from the sample of 5-star hotels in Beijing as shown in the Table 2 of Industry Overview.

Capital expenditure

Based on the current business plan, the Management assumed the initial investment cost would be approximately RMB838.7 million, including RMB800 million to construct the villa and RMB38.7 million to make the gardening and green landscapes. With planned total floor area of 80,404 square meters to be built on the Subject Land which has total area of 387,000 square meters, the average initial cost to build up the villa and gardening would be around RMB10,000 and RMB100 per square meter respectively, in line with the range of high end houses and 5-star hotels as discussed in Industry Overview and the unit cost of RMB40 per square meter for the construction of gardening observed from Shenzhen Construction Engineering Price Information issued in October 2011. Consistent with the construction plan of the Company, around 40% of total initial investment cost would be incurred for phase I in the first and second years and the remaining would be spend for phase II in the third and forth years. From the fifth year onwards, the capital expenditure would approximate to annual depreciation charges on the initial investment cost for general maintenance. Given the long operational period up to 2048, 5% annual growth was assumed on capital expenditure.

Working capital

Due to the nature of hotel or services apartment business, no substantial amounts of account receivable or inventory are expected. Net working liabilities were observed in historical track record of comparable companies or the industry statistics. Thus, no working capital was projected by the Management.

Discount rate

The rate at which the annual net cash flows discounted to present value is based on the estimated weighted average cost of capital (“WACC”), which incorporates the cost of equity and debt, weighted by the proportionate amount of each source of capital in the capital structure.

WACC Computation:

$$WACC = K_e \times (E_q/IC) + K_d \times (D/IC)$$

Where:

K_e	=	Cost of equity
E_q	=	Equity
IC	=	Invested capital (equity plus all interest bearing debt)
K_d	=	After-tax cost of debt
D	=	Debt

Since the Target Group has no operation before, we consider the cost of equity is more appropriate to determine the discount rate of the Proposed Project by assuming all equity financing. The cost of equity for the valuation was developed through the application of the Capital Asset Pricing Model (“CAPM”), which is the most commonly adopted method of estimating the cost of equity. CAPM states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk (“Beta”) times equity market premium in general. In estimating the Beta, we have observed the share price movement relative to overall equity market index of several listed comparable companies engaged in hotel business. We applied two criteria to search comparable companies in this regard: (i) the PRC companies engage in hotel business without ownership on hotel property, and (ii) international brands providing high-end hotel services. It is based on the consideration that the Target Group does not have the ownership on the Subject Land and the target customers or positioning of the Proposed Project is similar to those international brands in terms of services, charging rate, development cost, low density nature and green surrounding area. By using the above selection criteria, the cost of equity solely derived from the first batch of comparable companies as the measure of systematic risks was approximately 10.2% and, as compared with 11% before project specific risks adopted in this valuation, has no substantial difference. As such, selected comparable companies as set out below are regarded generally to be subjected to the same systematic risks as the Target Group. To account for and the non-diversifiable risk borne by investment in a single hotel operation, including the early stage of development of the Proposed Project, experience of the Company’s management team in media or golf course instead of hospitality business, relatively new brand recognition compared to comparable companies, and ramp up period to achieve the industrial level in terms of occupancy rate and profitability margin adopted in the Financial Projections, while the uniqueness of location next to golf course would create certain synergies to better secure source of revenues, which lower the operation risk, a property related project-specific risk premium of 2.5% was also added subjectively to cost of equity.

After considered the overall non-diversified risks on the Proposed Project as described above, the project specific risk premium of 2.5% was judgmentally assigned. To conclude the project specific risk premium, we have counter checked with the result extracted from Hotel Investor Sentiment Survey issued in May 2011 by Jones Lang LaSalle Hotels, one of the leading hotel investment services firm. According to this survey, the investment yield (cap rate) level required by investor to consummate a transaction for hotel investment in Beijing is around 8%. Together with the assumed long term revenue growth rate of 5%, the required rate from buyer seek would be approximately 13%, close to our conclusion below. As emphasized by this survey, these yields are those investors seek, not came from real transaction. So, it could not be directly applied in this valuation. The readers of this report should carefully consider the start-up nature of the Proposed Project and the risk associated. Should the project

specific risk premium change from different perspectives, the discount rate (WACC) and the indicated fair value of the Proposed Project would be different. The associated impacts on the fair value conclusion have been illustrated under the section of Sensitivity Analysis below.

Bloomberg Comparable Companies	Code
Home Inns & Hotel Management Inc	HMN US
China Lodging Group Ltd	HTHT US
7 Days Group Holdings Ltd	SVN US
Shangri-La Asia Ltd	69HK
Mandarin Oriental International Ltd	MAND SP
Intercontinental Hotels Group PLC	IHG LN
Hyatt Hotels Corp	H US
Marriott International Inc	MAR US
HongKong & Shanghai Hotels	45 HK

The computation of the estimated cost of equity is shown as follows:

$$K_e = R_f + ERP \times \text{Beta} + \text{Alpha}$$

Where:

K_e = Required return on equity

R_f = Risk-free rate of return = 4.03% Rf is based on the yield on China government long-term bond with maturity in 2060 as of the Valuation Date.

β = Beta = 0.98 Beta is a measure of the relationship between industry risk and the aggregate market. It is based on the betas of the selected comparable companies.

ERP = Equity risk premium = 7.12% The ERP is the expected return of the market (R_m) in excess of the risk-free rate (R_f), or, is based on US equity risk premium of 5.5% (extracted from Ibbotson Report) plus the market systematic risk in China, which is referenced to the volatility of local market index in relation to the S&P500

Alpha = Project-specific risk premium = 2.5% It is the non-diversifiable risk borne by investment in single company and the early stage of development.

As such, our analysis concludes that a discount rate of 13.5% is considered appropriate for valuing the Proposed Project.

Lack of Marketability Discount (“LOMD”)

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share or stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

Given the sale restriction of the properties to be developed on the Subject Land, the LOMD for a going concern business should be considered as compared with freely transferrable lands. In this appraisal, we applied option-pricing model to estimate the LOMD as this model can take into account the factors like timing of liquidity event and risk factors in terms of volatility. If one holds restricted or non-marketable stock, the holder can purchase at the money put option of similar stock to hedge the current value of the underlying stock. Therefore, the purchase cost of a put option can approximate the discount for lack of marketability. Normally, the farther the valuation date is from an expected liquidity event, or the higher volatility over the option period, the higher the put option value and thus the higher the implied LOMD.

By using the option-pricing method, discount for lack of marketability of 20% was applied in this Valuation.

Value indicated by the income approach

The above key inputs and assumptions result in the value indication for the Proposed Project of RMB849 million (rounded to nearest million).

SENSITIVITY ANALYSIS

As part of our valuation, a sensitivity analysis of value indication arrived at using the income approach was performed. We have tested sensitivity of the Proposed Project's value to changes of the discount rate (WACC), daily room rate, occupancy rate, annual growth rate on rental charges, EBITDA margin, annual growth rate on capital expenditure and LOMD. The result is presented below:

WACC	Daily Room Rate (RMB/sq.m.)				
	45	50	55	60	65
11.5%	731,000	940,000	1,148,000	1,357,000	1,565,000
12.5%	614,000	800,000	985,000	1,170,000	1,356,000
13.5%	517,000	683,000	849,000	1,015,000	1,182,000
14.5%	434,000	583,000	733,000	882,000	1,032,000
15.5%	364,000	499,000	635,000	770,000	906,000

(RMB'000)

(RMB'000)

WACC	Occupancy Rate				
	50%	55%	60%	65%	70%
11.5%	771,000	959,000	1,148,000	1,337,000	1,526,000
12.5%	650,000	818,000	985,000	1,153,000	1,320,000
13.5%	549,000	699,000	849,000	999,000	1,149,000
14.5%	463,000	598,000	733,000	868,000	1,002,000
15.5%	390,000	513,000	635,000	757,000	879,000

(RMB'000)

Daily room rate (RMB/sq.m)	Occupancy Rate				
	50%	55%	60%	65%	70%
45	271,000	394,000	517,000	639,000	762,000
50	410,000	546,000	683,000	819,000	956,000
55	549,000	699,000	849,000	999,000	1,149,000
60	688,000	851,000	1,015,000	1,178,000	1,342,000
65	826,000	1,004,000	1,182,000	1,358,000	1,536,000

(RMB'000)

WACC	Annual growth rate on rental charges				
	3%	4%	5%	6%	7%
11.5%	702,000	907,000	1,148,000	1,434,000	1,774,000
12.5%	609,000	782,000	985,000	1,224,000	1,506,000
13.5%	529,000	677,000	849,000	1,050,000	1,286,000
14.5%	460,000	586,000	733,000	902,000	1,101,000
15.5%	400,000	510,000	635,000	780,000	948,000

(RMB'000)

WACC	EBITDA margin				
	23%	28%	33%	38%	43%
11.5%	454,000	801,000	1,148,000	1,495,000	1,842,000
12.5%	367,000	676,000	985,000	1,294,000	1,602,000
13.5%	295,000	572,000	849,000	1,126,000	1,402,000
14.5%	234,000	483,000	733,000	982,000	1,231,000
15.5%	183,000	409,000	635,000	861,000	1,087,000

WACC	(RMB'000)				
	Annual growth rate on capital expenditure				
	3%	4%	5%	6%	7%
11.5%	1,270,000	1,214,000	1,148,000	1,071,000	980,000
12.5%	1,086,000	1,040,000	985,000	921,000	846,000
13.5%	934,000	894,000	849,000	796,000	734,000
14.5%	804,000	771,000	733,000	689,000	638,000
15.5%	697,000	667,000	635,000	598,000	555,000

WACC	(RMB'000)				
	LOMD				
	10%	15%	20%	25%	30%
11.5%	1,292,000	1,222,000	1,148,000	1,076,000	1,005,000
12.5%	1,108,000	1,046,000	985,000	923,000	862,000
13.5%	955,000	902,000	849,000	796,000	743,000
14.5%	824,000	779,000	733,000	687,000	641,000
15.5%	715,000	675,000	635,000	596,000	556,000

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above, it is our opinion that the fair market value of the Proposed Project as of the Valuation Date is reasonably stated by the amount of **RENMINBI EIGHT HUNDRED AND FORTY NINE MILLION (RMB849,000,000) ONLY.**

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We do not provide assurance on the achievability of any financial results estimated by the Company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of Management.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Respectfully submitted,
For and on behalf of
AMERICAN APPRAISAL CHINA LIMITED
Ricky Lee
Senior Vice President and Director

Note: Mr. Lee has been involved in business enterprise and intangible asset valuation services for the purposes of joint venture, merger & acquisition and public listing for over fifteen years and is a fellow member of the Association of Chartered Certified Accountants, accredited senior appraiser of the American Society of Appraisers and charter holder of the Chartered Financial Analyst.

This valuation was prepared under the supervision of Mr. Lee as project-in-charge with significant professional assistance from Ms. Joan Wong. Miss Wong is a fellow member of Association of Chartered Certified Accountants, charter holder of the Chartered Financial Analyst. She has more than six years experience in providing business enterprise and intangible asset valuation services for the purpose of financial reporting and corporate restructuring related engagements.

1. LETTER FROM DONVEX CAPITAL LIMITED

The following is the text of the letter received from Donvex Capital Limited, being financial advisor of the Company in relation to the Proposed Acquisition, in connection with the valuation report prepared by American Appraisal China Limited, which constitutes a profit forecast under Rule 14.61 of the Listing Rules.



8 August 2012

The Board of Directors
MEDIA CHINA CORPORATION LIMITED
Suite 3503, 35/F Tower Two,
Lippo Centre
89 Queensway
Hong Kong

Dear Sirs,

We refer to report on the calculations of the discounted future estimated cash flows on which the business valuation (the “Valuation”) dated 22 May 2012 prepared by American Appraisal China Limited in respect of the appraisal of the fair value of the 100% equity interests in Yuan Shun Investments Limited (the “Target Company”) is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to report on the calculations of the discounted future estimated cash flows on which the Valuation is based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

On the basis of the foregoing, we are satisfied that the Valuation for which you as the directors of the Company are solely responsible, have been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

2. REPORT FROM PRICEWATERHOUSECOOPERS

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



羅兵咸永道

8 August 2012

**REPORT FROM REPORTING ACCOUNTANT ON DISCOUNTED FUTURE ESTIMATED
CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF YUAN SHUN
INVESTMENTS LIMITED****TO THE BOARD OF DIRECTORS OF MEDIA CHINA CORPORATION LIMITED**

We have been engaged to report on the calculations of the discounted future estimated cash flows on which the business valuation (the “Valuation”) dated 8 August 2012 prepared by American Appraisal China Limited in respect of the appraisal of the fair value of the 100% equity interests in Yuan Shun Investments Limited (the “Target Company”) is based. The Valuation is set out in Appendix IV of the circular of Media China Corporation Limited (the “Company”) dated 8 August 2012 (the “Circular”) in connection with the acquisition of a 100% equity interest in the Target Company by Unique Talent Group Limited, a wholly-owned subsidiary of the Company. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Directors’ Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and as set out in Appendix IV of the Circular. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting Accountant’s Responsibility

It is our responsibility to report, as required by paragraph 29(2) of Appendix 1B of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

*PricewaterhouseCoopers, 22/F Prince’s Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions as set out in Appendix IV of the Circular. We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in all material respects in accordance with the bases and assumptions made by directors of the Company as set out in Appendix IV of the Circular.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

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 misleading.

2. SHARE CAPITAL**Share Capital**

The authorized and issued share capital of the Company as (i) at the Latest Practicable Date and (ii) immediately after Completion are as follows:

As at the Latest Practicable Date

Authorized:	30,000,000,000 Shares (HK\$3,000,000,000)
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Authorized:	240,760,000 Preference Shares (HK\$2,407,600)
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Issued and to be issued as fully paid:	4,539,179,453 Shares (HK\$453,917,945.3)
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Immediately after Completion and assuming full conversion of the Convertible Note

Shares to be allotted and issued after Completion and following full conversion of the Conversion Rights attached to the Convertible Note:	7,000,000,000 Shares (HK\$700,000,000)
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	11,539,179,453 Shares (HK\$1,153,917,945.3)
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Immediately after Completion and assuming (i) full conversion of the Convertible Note, (ii) after the issuance of the maximum consideration Shares of 100,000,000 for the acquisition announced by the Company on 22 February 2011, and (iii) upon the exercise of the subscription rights attaching to the Warrants

Shares to be allotted and issued after Completion and following (i) the full conversion of the Conversion Rights attached to the Convertible Note, (ii) the issuance of 100,000,000 Shares for the acquisition announced by the Company on 22 February 2011, and (iii) the full exercise of the subscription rights attaching to the Warrants	7,630,000,000 Shares (HK\$763,000,000)
	12,169,179,453 Shares (HK\$1,216,917,945.3)

The Conversion Shares shall rank *pari passu* in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other Shares then in issue on the dates of issue of the Conversion Shares.

The Shares are primarily listed on the main board of the Stock Exchange. No part of the Share or loan capital of the Company is listed or dealt in, nor is listing or permission to deal in the Share or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

There are no arrangements under which future dividends will be waived or agreed to be waived.

3. INTERESTS OF DIRECTORS

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 or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules (the “Model Code”), were as follows:

Name of Director	Nature of Interest	Number of Shares interested or deemed to be interested (long position)	Approximate percentage of the issued share capital of the Company
Mr. YUEN	Corporate interest (Note 1)	7,798,150,000	171.80% (Note 2)
Mr. Edward TIAN Suning	Corporate interest (Note 3)	387,733,233	8.54%
	Beneficial interest (Note 4)	6,254,754	0.14%
Mr. ZHANG Changsheng	Beneficial Interest (Note 5)	40,000,000	0.88%
Professor WEI Xin	Beneficial Interest (Note 5)	4,000,000	0.09%
Dr. WONG Yau Kar, David	Beneficial Interest (Note 5)	4,000,000	0.09%
Mr. YUEN Kin	Beneficial Interest (Note 5)	4,000,000	0.09%
Mr. CHU Yuguo	Beneficial Interest (Note 5)	4,000,000	0.09%

Notes:

- Pursuant to Part XV of the SFO, Mr. YUEN is deemed to be interested in 798,150,000 Shares held by his wholly-owned corporations namely, Ming Bang Limited and Rich Public Limited. Mr. YUEN is also deemed to be interested in 7,000,000,000 Conversion Shares which fall to be allotted and issued by the Company following the exercise of the Conversion Rights attached to the Convertible Note held by Smart Concept Enterprise Limited, his wholly-owned corporation.
- Assuming full conversion of the Convertible Note. However, it is provided in the conditions of the Convertible Note that the relevant holder of the Convertible Note is only allowed to exercise the Conversion Rights only to the extent that (i) any conversion of the Convertible Note does not render the relevant holder of the Convertible Note who exercises the Conversion Rights and parties acting in concert with such holder to hold (whether directly or indirectly), together with any Shares already owned or agreed to be acquired by such holder of Convertible Note and parties acting in concert Shares representing 30% or more of the consequential enlarged issued ordinary share capital

of the Company and (ii) any conversion of the Convertible Note will not lead to the public float being less than 25% of the consequential enlarged issued ordinary share capital of the Company at the date of the relevant exercise. Accordingly, the figures shown in this row are for illustration purposes only.

3. Mr. Edward TIAN Suning is deemed to be interested in 387,733,233 Shares held by CBC China Media Limited.
4. This represents the Shares to be allotted and issued upon exercise of the share options granted to Mr. Edward TIAN Suning under the old share option scheme of the Company adopted by the Company pursuant to an ordinary resolution of the Company passed on 30 July 2002.
5. These represent the Shares to be allotted and issued upon exercise of the share options granted to Mr. ZHANG Changsheng, Professor WEI Xin, Dr. WONG Yau Kar, David, Mr. YUEN Kin and Mr. CHU Yuguo under the share option scheme of the Company adopted by the Company pursuant to an ordinary resolution of the Company passed on 4 June 2012, respectively.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company have interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

4. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executives of the Company, the following persons (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who, as at the Latest Practicable Date, was directly and indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or had any options in respect of such capital, were as follows:

Name of Shareholder	Nature of Interest	Number of Shares interested or deemed to be interested (long position)	Approximate Percentage of the issued share capital of the Company
Smart Concept Enterprise Limited	Beneficial interest	7,000,000,000	154.21% (Note a)
Sun Hung Kai Investment Services Limited	Beneficial interest (Note b)	827,435,214	18.23%
Sun Hung Kai Securities Limited	Corporate interest (Note b)	827,435,214	18.23%
Sun Hung Kai & Co. Limited	Corporate interest (Note b)	827,435,214	18.23%
Allied Properties (H.K.) Limited	Corporate interest (Note b)	827,435,214	18.23%

Name of Shareholder	Nature of Interest	Number of Shares interested or deemed to be interested (long position)	Approximate Percentage of the issued share capital of the Company
Allied Group Limited	Corporate interest (<i>Note b</i>)	827,435,214	18.23%
Mr. LEE Seng Hui	Corporate interest (<i>Note b</i>)	827,435,214	18.23%
Mr. LEE Su Hwei	Corporate interest (<i>Note b</i>)	827,435,214	18.23%
Mr. LEE Seng Huang	Corporate interest (<i>Note b</i>)	827,435,214	18.23%
Rich Public Limited	Beneficial interest (<i>Note c</i>)	798,150,000	17.58%
Ming Bang Limited	Corporate interest (<i>Note d</i>)	798,150,000	17.58%
CBC China Media Limited	Beneficial interest (<i>Note e</i>)	387,733,233	8.54%
Mr. HE Peng	Beneficial interest (<i>Note f</i>)	300,000,000	6.61%

Notes:

- a. Smart Concept Enterprise Limited is interested in 7,000,000,000 Conversion Shares which fall to be allotted and issued by the Company following the exercise of the Conversion Rights attached to the Convertible Note. However, it is provided in the conditions of the Convertible Note that the relevant holder of the Convertible Note is only allowed to exercise the Conversion Rights only to the extent that (i) any conversion of the Convertible Note does not render the relevant holder of the Convertible Note who exercises the Conversion Rights and parties acting in concert with such holder to hold (whether directly or indirectly), together with any Shares already owned or agreed to be acquired by such holder of Convertible Note and parties acting in concert Shares representing 30% or more of the consequential enlarged issued ordinary share capital of the Company and (ii) any conversion of the Convertible Note will not lead to the public float being less than 25% of the consequential enlarged issued ordinary share capital of the Company at the date of the relevant exercise. Accordingly, the figures shown in this row are for illustration purposes only. Mr. YUEN is beneficially interested in the entire issued share capital of Smart Concept Enterprise Limited. He is also a director of Smart Concept Enterprise Limited.
- b. Sun Hung Kai Investment Services Limited is a wholly-owned subsidiary of Sun Hung Kai Securities Limited, a wholly-owned subsidiary of Sun Hung Kai & Co. Limited, which in turn is a non wholly-owned subsidiary of Allied Properties (H.K.) Limited. Allied Properties (H.K.) Limited is a non wholly-owned subsidiary of Allied Group Limited in which Mr. LEE Seng Hui, Ms. LEE Su Hwei and Mr. LEE Seng Huang are the trustees of the Lee and Lee Trust, having 63.87% interest in Allied Group Limited as at 20 June 2012. Accordingly, they are deemed to have the same long position as Sun Hung Kai Investment Services Limited.
- c. Rich Public Limited is an investment holding company incorporated in the British Virgin Islands and its entire issued share capital is beneficially owned by Ming Bang Limited.
- d. Ming Bang Limited is an investment holding company incorporated in the British Virgin Islands and its entire issued share capital is beneficially owned as to Mr. YUEN. Mr. YUEN is also a director of Ming Bang Limited.
- e. CBC China Media Limited is an investment holding company incorporated in the British Virgin Islands. Mr. Edward TIAN Suning is the Non-executive Director of the Company and the director of CBC China Media Limited.
- f. Mr. HE Peng as vendor entered into a conditional sale and purchase agreement dated 26 January 2011 with the Purchaser, as purchaser and the Company as the purchaser's guarantor. Pursuant to the sale and purchase agreement, 200,000,000 shares have been issued by the Company to Mr. HE Peng on 28 July 2011, and 100,000,000 shares will be issued by the Company to Mr. HE Peng upon fulfillment of the unconditional and irrevocable indemnity.

As at the Latest Practicable Date, 侯弘女士 (Ms. HOU Hong*) is interested in 30% of the issued shares of 北京那小嘴文化有限公司 (Beijing Na Xiao Zui Wen Hua You Xian Gong Si*), a subsidiary of the Company.

Save as disclosed above, as so far is known to the Directors or chief executives of the Company, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any persons (other than the Directors and chief executives of the Company) who, as at the Latest Practicable Date, was directly and indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or had any options in respect of such capital.

5. SERVICE CONTRACT

As the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

6. LITIGATION

Save as disclosed below, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against the Group.

References are made to the announcements of the Company dated 26 April 2011 and 26 October 2011 in relation to price sensitive information. Beijing Hua Yi Hao Ge Media Culture Limited (“Hua Yi Hao Ge”), a wholly-owned subsidiary of the Company, has received a civil ruling issued by the Beijing Second Intermediate People’s Court (the “Beijing Intermediate Court”) dated 17 October 2011 (the “Beijing Intermediate Court Ruling”). Pursuant to the Beijing Intermediate Court Ruling, the Beijing Intermediate Court has ruled that, inter alia, Hua Yi Hao Ge is obliged to repay Hainan Haishi Tourist Satellite TV Media Co., Ltd. (“Hainan Haishi”) an amount of approximately RMB79.9 million, plus the accrued interests since 14 December 2010 based on market borrowing rate, within 10 days of the effective date of the Beijing Intermediate Court Ruling. The alleged amount arose from the Group’s exclusive advertising agency business with Hainan Haishi before 31 December 2008. The alleged amount claimed by Hainan Haishi has already been accrued in the Group’s consolidated financial statements since the year ended 31 December 2008, which has not yet been settled as of the date of this circular. The Directors do not anticipate that any material liabilities will arise other than those provided for and believe that the Group has sufficient financial resources to discharge the debt.

Hua Yi Hao Ge appealed against the Beijing Intermediate Court Ruling and the appeal was heard by the Beijing People’s High Court (北京市高級人民法院) (the “Beijing High Court”) on 1 December 2011. On 16 December 2011, the Beijing High Court ordered that the legal proceedings shall be discontinued pursuant to section 136(6) of the Civil Procedure Law of the PRC (中華人民共和國民事訴訟法). Under the said section 136(6), the legal proceedings can be restored in accordance with the provisions thereof.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief and based on information provided by the Vendor, the Target Group was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Target Group.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or has or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

8. DIRECTORS' & EXPERTS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save as disclosed in this circular in pages 214–215, none of the Directors or experts (as referred to below) were materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, save as disclosed in this circular in pages 214–215, none of the Directors or experts (as referred to below) had any direct or indirect interest in any assets which have been, since 31 December 2011, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of, or leased to any member of the Enlarged Group.

9. EXPERTS AND CONSENT

The following are the qualifications of the experts who have given their opinions and advice which are contained or referred to in this circular:

Name	Qualification
Donvex Capital Limited ("Donvex")	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Messis Capital Limited ("Massis")	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
PricewaterhouseCoopers	Certified Public Accountants
American Appraisal China Limited ("American Appraisal")	Independent professional valuer
Fred Kan & Co. ("FK")	Legal advisers to the Company as to Hong Kong laws
Guantao Law Firm (觀韜律師事務所) ("Guantao")	Legal advisers to the Company as to PRC laws

As at the Latest Practicable Date, each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report and/or letter and/or summary of valuations and/or opinion (as the case may be), and/or the references to its name included in the form and context in which it is respectively included.

As of the Latest Practicable Date, none of the experts above was beneficially interested in the share capital of any member of the Enlarged Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, all the experts above did not have any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Enlarged Group, or are proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2011 (the date to which the latest published audited consolidated financial statements of the Group were made up).

10. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the members of the Enlarged Group within two years immediately preceding the date of this circular, which are or may be material:

- (a) the Acquisition Agreement;
- (b) the warrant placing agreement dated 19 December 2011 entered into between the Company and the SinoPac Securities (Asia) Limited whereby the Company appointed the SinoPac Securities (Asia) Limited as the sole and exclusive placing agent to procure not less than six placees to subscribe for up to 550,000,000 unlisted Warrants, on best efforts basis, at the issue price of HK\$0.005 per Warrant, and each Warrant entitles the holder thereof to subscribe for one warrant share at the initial exercise price of HK\$0.10 per warrant share;
- (c) the sale and purchase agreement dated 19 May 2011 entered into between the Company and DVN (Holdings) Limited, whereby the Company agreed to sell the entire issued share capital in and assign its loans due from Sinofocus Media (Holdings) Limited to DVN (Holdings) Limited at an aggregate consideration of HK\$82,000,000;
- (d) the supplemental agreement entered into between Unique Talent Group Limited, Mr. HE Peng and the Company on 16 May 2011 to vary certain terms of the sale and purchase agreement dated 26 January 2011 below, particulars of which were disclosed in the Company's announcement dated 16 May 2011;
- (e) the underwriting agreement dated 5 May 2011 entered into between the Company and Sun Hung Kai International Limited as the underwriter in relation to the proposed issue of 1,439,726,484 new consolidated shares by way of a rights issue to be offered to the qualifying shareholders for subscription on the basis of one rights share for every two consolidated shares held on 23 May 2011, with the underwriting commission being 3% of the subscription price multiplied by the total number of underwritten shares on the terms set out in the prospectus issued by the Company dated 24 May 2011;

- (f) the deed of termination entered into between the Company and KH Investment Holdings Limited on 15 April 2011, whereby both parties agreed to terminate the sale and purchase agreement entered into between the Company and KH Investment Holdings Limited on 16 November 2010 with effect from 15 April 2011;
- (g) the conditional sale and purchase agreement dated 26 January 2011 entered into between Mr. HE Peng as vendor, Unique Talent Group Limited as purchaser and the Company as the purchaser's guarantor for the sale and purchase of the entire share capital of Smart Title Limited and the assignment of the shareholder's loan owed by Smart Title Limited to Mr. HE Peng for an aggregate consideration of HK\$500 million, and as amended by the supplemental agreement dated 16 May 2011 above;
- (h) the sale and purchase agreement entered into between the Company and KH Investment Holdings Limited on 16 November 2010, whereby the Company agreed to sell the Company's entire issued share capital in and its loans to Sinofocus Media (Holdings) Limited at an aggregate consideration of HK\$82,000,000; and
- (i) the sale and purchase agreement dated 10 September 2010 made between Effort Wonder Limited, a wholly owned subsidiary of the Company, and the Company with Winshine Group Limited and Tian An China Investments Company Limited 天安中國投資有限公司, whereby Effort Wonder Limited will purchase and Winshine Group Limited will sell the entire issued share capital of Green Harmony Investments Limited and the entire issued share capital of Green Villa Investments Limited and the loan owed by Green Villa Investments Limited to Winshine Group Limited less certain amount for the consideration of HK\$280,000,000.

11. MISCELLANEOUS

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal office in Hong Kong is in Suite 3503, 35/F, Tower Two, Lippo Centre, 89 Queensway, Hong Kong.
- (b) The company secretary of the Company is Mr. HAU Wai Man, Raymond, who is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants and has accumulated over 10 years of experience in international accounting firms and corporations in Hong Kong and the PRC.
- (c) The branch share registrar of the Company in Hong Kong is Tricor Tengis Ltd. at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal office in Hong Kong of the Company at Suite 3503, 35/F, Tower Two, Lippo Centre, 89 Queensway, Hong Kong during normal business hours on any weekday (except Saturdays, Sundays and public holidays), from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix;
- (c) the published annual reports of the Company for the two financial years ended 31 December 2010 and 2011;
- (d) the accountant’s report on the Target Group as set out in Appendix II to this circular;
- (e) the report on unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;
- (f) the valuation report on the development and operation rights of the Subject Land prepared by American Appraisal as set out in Appendix IV to this circular;
- (g) the letter/report in relation to discounted future estimated cash flows as set out in Appendix V to this circular;
- (h) the written consents from the experts referred to under the section headed “General Information — Experts and Consent” in this Appendix; and
- (i) a copy of each of the circulars issued by the Company pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules since 31 December 2011 (being the date to which the latest published audited consolidated financial statements of the Company was made).

mediachina

C O R P O R A T I O N L I M I T E D

華 億 傳 媒 有 限 公 司

MEDIA CHINA CORPORATION LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Media China Corporation Limited (the “Company”) will be held at Falcon Room I, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Thursday, 23 August 2012 at 10:30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions:

ORDINARY RESOLUTIONS

1. **“THAT** conditional upon passing of resolution 2 below:
 - (a) the sale and purchase agreement dated 25 May 2012 as amended by the supplemental agreement dated 6 August 2012 (the “Acquisition Agreement”, a copy of which has been produced to the meeting and marked “A” and initialed by the Chairman of this meeting for the purpose of identification) and entered into between Unique Talent Group Limited, a wholly owned subsidiary of the Company, as purchaser, Smart Concept Enterprise Limited as vendor in relation to the acquisition of the entire issued share capital of Yuan Shun Investments Limited, details of which are set out in the circular of the Company dated 8 August 2012, at a consideration of HK\$900 million (the “Consideration”) to be satisfied by cash, the issue of Promissory Note (as defined hereafter), and the issue of Convertible Note (as defined hereafter), and the transactions contemplated thereunder, be and is hereby confirmed, approved and ratified;
 - (b) the issue of promissory note (the “Promissory Note”) in the principal amount of HK\$150 million to the Vendor in accordance with the Acquisition Agreement in partial satisfaction of the Consideration be and is hereby approved;
 - (c) the issue by the Company of zero coupon convertible note (the “Convertible Note”) in the principal amount of RMB569 million (equivalent to approximately HK\$700 million) to the Vendor in accordance with the Acquisition Agreement in partial satisfaction of the Consideration be and is hereby approved;
 - (d) the allotment and issue by the Company of the conversion shares (the “Conversion Shares”) from time to time upon the exercise of the conversion rights under the Convertible Note be and are hereby approved; and

NOTICE OF EGM

- (e) that any director of the Company be and is hereby authorized to do such acts and things, to sign and execute all such further documents and to take such steps as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement or any transactions contemplated under the Acquisition Agreement including but without limitation, the issue of the Convertible Note and the allotment and issue of the Conversion Shares from time to time upon exercise of the conversion rights under the Convertible Note.”

2. **“THAT** conditional upon passing of resolution 1 above:

subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Conversion Shares, the Conversion Shares be issued and allotted by way of specific mandate in accordance with the terms of the Acquisition Agreement and THAT any two directors of the Company or any director and the company secretary where the related document(s) shall be under seal be and is/are hereby authorised to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and other things as may be considered necessary or desirable for the purpose of the implementation of the above specific mandate.”

By Order of the Board
Media China Corporation Limited
Yuen Hoi Po
Chairman

Hong Kong, 8 August 2012

Registered Office:

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal office in Hong Kong:

Suite 3503, 35/F
Tower Two, Lippo Centre
89 Queensway
Hong Kong

Notes:

1. 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 be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the share register of the Company in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall for the purposes of the Articles of Association of the Company be deemed joint holders thereof.
2. Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.
3. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

NOTICE OF EGM

4. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the extraordinary general meeting or adjourned meeting.
5. All voting by the members at the Meeting shall be conducted by way of poll.