THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Cheung Wo International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

CHEUNG WO INTERNATIONAL HOLDINGS LIMITED
長和國際實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00009)

MAJOR AND CONNECTED TRANSACTION SALE AND PURCHASE AGREEMENT IN RESPECT OF ACQUISITION OF 49% OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONVERTIBLE NOTES AND NOTICE OF THE SGM

Financial Adviser to the Company

KINGSTON CORPORATE FINANCE

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

天泰金融
TITAN

Titan Financial Services Limited

A notice convening a special general meeting of the Company (the "**SGM**") to be held at Room 4101, 41st Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 21 March 2016 at 10:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

A letter from the Board is set out on pages 6 to 35 of this circular. A letter from the Independent Board Committee is set out on pages 36 to 37 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 38 to 67 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

3 March 2016

* *For identification purpose only*

CONTENTS

In this circular, unless otherwise defined or the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the proposed acquisition of the Sale Shares pursuant to the Formal SP Agreement;
"Announcement"	the announcement of the Company dated 16 November 2015 in respect of the Formal SP Agreement and the transactions contemplated thereunder;
"associate(s)"	has the meaning ascribed thereto in the Listing Rules;
"Board"	the board of Directors;
"Business Day"	a day (other than a Saturday and Sunday) on which banks in Hong Kong are open for business;
"BVI"	the British Virgin Islands;
"Changan Project Company"	東莞市德晉熱力有限公司 (Dongguan City Dejin Thermal Power Company Limited*), a company established in Changan Town, Dongguan City, Guangdong Province, the PRC on 22 July 2015 and the entire equity interest of which is held as to 80% by the WFOE and as to 20% by Dongguan Deci;
"Company"	Cheung Wo International Holdings Limited (長和國際實業集團有限公司*), a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 00009);
"Completion"	the completion of the Acquisition in accordance with the terms and conditions of the Formal SP Agreement;
"Completion Date"	any day within 5 Business Days after all conditions precedent of the Formal SP Agreement have been fulfilled or waived or such other date as the parties to the Formal SP Agreement shall agree in writing and as the date on which Completion shall take place;
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules;
"Connected-World"	Connected-World Group Limited (世通集團有限公司), a company incorporated in BVI with limited liability on 8 October 2015, the entire issued share capital of which is held by Mr. Cheng Ngok Fai;
"Consideration"	the consideration of the Acquisition, being HK$882,000,000;

"Conversion Period"	the period commencing from the Issue Date up to 4:00 p.m. (Hong Kong time) on the Maturity Date;
"Conversion Price"	HK$0.80, being the initial conversion price per Share at which the Convertible Notes may be converted into Shares;
"Conversion Share(s)"	the Share(s) to be issued by the Company upon exercise by the Noteholders of the conversion rights attaching to the Convertible Notes;
"Convertible Notes"	the convertible notes in the principal amount of HK$822,000,000 to be issued by the Company pursuant to the Formal SP Agreement;
"Directors"	the director(s) of the Company;
"Dongguan Deci"	東莞市德賜實業投資有限公司 (Dongguan City Deci Investment Company Limited*), a company established on 8 January 2016 in Humen Town, Dongguan City, Guangdong Province, the PRC, which is an Independent Third Party;
"Enlarged Group"	the Group and the Target Group;
"Eternal Galaxy"	Eternal Galaxy Group Limited (永宙集團有限公司), a company incorporated in BVI with limited liability on 8 October 2015, the entire issued share capital of which is held by Mr. Li Ruiguang;
"Formal SP Agreement"	the formal sale and purchase agreement dated 16 November 2015 entered into among the Company, the Vendor and the Guarantors in respect of the Acquisition (or, where the context so requires, such agreement as supplemented by the Supplemental Agreement);
"Group"	the Company and its subsidiaries;
"Guarantors"	Mr. Cheng Ngok Fai and Mr. Li Ruiguang;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Humen Project Company"	東莞市德晉能源科技有限公司 (Dongguan City Dejin Energy Technology Company Limited*), a company established on 30 August 2013 in Humen Town, Dongguan City, Guangdong Province, the PRC and the entire equity interest of which is held as to 80% by WFOE and as to 20% by Dongguan Deci;

"Independent Board Committee"	the board committee established by the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on the Formal SP Agreement and the transactions contemplated thereunder;
"Independent Financial Adviser"	Titan Financial Services Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Formal SP Agreement and the transactions contemplated thereunder;
"Independent Shareholders"	Shareholders other than Mr. Cheng Keung Fai and those who have material interest in the Acquisition;
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its connected persons;
"Issue Date"	the date of issue of the Convertible Notes;
"Latest Practicable Date"	29 February 2016, the latest practicable date prior to the issue of this circular for the purpose of ascertaining certain information contained herein;
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Long Stop Date"	31 March 2016 (or such later date as agreed by the Vendor and the Company in writing);
"Maturity Date"	the expiry of 42 months from the Issue Date;
"Memorandum"	the non-legally binding memorandum of understanding dated 22 October 2015 entered into between the Vendor and the Company setting out the preliminary terms and understanding in relation to the Acquisition;
"MPa"	megapascal, the unit of pressure;
"Noteholder(s)"	holder(s) of the Convertible Notes;

"PRC"	the People's Republic of China, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"Project Companies"	Changan Project Company and Humen Project Company;
"Reorganisation"	the reorganisation of the Target Group including but not limited to the establishment of the WFOE by Special Billion and the acquisition of 80% equity interests in each of the Project Companies;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale Shares"	49% of the entire issued share capital of the Target Company;
"SFC"	the Securities and Futures Commission of Hong Kong;
"SGM"	the special general meeting of the Company to be convened and held at Room 4101, 41st Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 21 March 2016 to approve, among others, the Formal SP Agreement and the respective transactions contemplated thereunder, including the issue of the Convertible Notes and the allotment and issue of Conversion Shares and the Specific Mandate;
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of the Shares;
"Special Billion"	Special Billion Limited (威浩有限公司), a company incorporated in Hong Kong with limited liability on 25 September 2015, the entire issued share capital of which is held by the Target Company;
"Specific Mandate"	the specific mandate required to be granted to the Directors by the Shareholders at a general meeting for the allotment and issue of Conversion Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Supplemental Agreement"	the supplemental agreement to the Formal SP Agreement dated 17 February 2016 entered into among the Company, the Vendor and the Guarantors;
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC;

"Target Company"	Ever-Grand Development Limited, a company incorporated in the BVI with limited liability on 8 October 2015;
"Target Group"	the Target Company and its subsidiaries both before or after the Completion, including the Project Companies (as the case may be);
"Target Net Profit"	the audited consolidated annual net profit of the Target Group after tax (exclusive of non-recurring profits) attributable to the Company for the period from 1 January to 31 December;
"US$"	United States Dollars, the lawful currency of the United States of America;
"Vendor"	Sky-Linked International Limited (聯天國際有限公司), a company incorporated in the BVI with limited liability on 8 October 2015, the entire issued share capital of which was owned as to 60% by Connected-World and as to 40% by Eternal Galaxy as at the Latest Practicable Date;
"Warrantors"	the Vendor and the Guarantors;
"WFOE"	東莞市晉德能源科技有限公司 (Dongguan City Jinde Energy Technology Company Limited*), a wholly foreign-owned enterprise established by Special Billion on 5 January 2016 in Humen Town, Dongguan City, Guangdong Province, the PRC;
"°C"	degree Celsius; and
"%"	per cent.

* *For identification purpose only*

CHEUNG WO INTERNATIONAL HOLDINGS LIMITED
長和國際實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00009)

Executive Directors:
Mr. Hui Wai Lee, Willy *(Chairman)*
Ms. Law Kee, Alice *(Chief Executive Officer)*
Mr. Tai Yat Ching
Mr. Li Wenjun
Mr. Zhong Yingchang

Independent non-executive Directors:
Mr. Tsui Pui Hung
Mr. Tang Ping Sum
Mr. Chiu Sin Nang, Kenny

Registered Office:
Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda

Head office and principal place of business in Hong Kong:
Room 4101, 41st Floor
Lee Garden One, 33 Hysan Avenue
Causeway Bay, Hong Kong

3 March 2016

To the Shareholders and warrantholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION SALE AND PURCHASE AGREEMENT IN RESPECT OF ACQUISITION OF 49% OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONVERTIBLE NOTES AND NOTICE OF THE SGM

INTRODUCTION

Reference is made to the announcements of the Company dated 22 October 2015, 16 November 2015, 31 December 2015, 25 January 2016, 17 February 2016 and 25 February 2016 in relation to, among other things, (i) the Acquisition; (ii) the issue of the Convertible Notes; and (iii) the issue of the Conversion Shares under the Specific Mandate upon full exercise of conversion rights attaching to the Convertible Notes.

* *For identification purpose only*

On 16 November 2015 after trading hours, the Company, the Vendor and the Guarantors entered into the Formal SP Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Company has conditionally agreed to acquire the Sale Shares, representing 49% of the entire issued share capital of the Target Company, at the consideration of HK$882,000,000.

On 17 February 2016 after trading hours, the Company, the Vendor and the Guarantors entered into the Supplemental Agreement, pursuant to which the Vendor and the Company agreed, among other things, to extend the Long Stop Date from 17 February 2016 to 31 March 2016 (or such other date as may be agreed by the Vendor and the Company in writing) and amend the payment terms of the Consideration, pursuant to which the $60,000,000 cash payment shall be made within six months after the Completion Date by single or multiple payment(s), instead on the Completion Date. Please refer to the paragraph headed "Consideration" in this Letter from the Board for further details.

The purpose of this circular is to provide the Shareholders with, among others, (i) further details of the Formal SP Agreement and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee in respect of the Formal SP Agreement and the transactions contemplated thereunder; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Formal SP Agreement and the transactions contemplated thereunder; (iv) the financial information of the Target Group; (v) the valuation report of the business of the Target Group; and (vi) a notice of the SGM.

THE FORMAL SP AGREEMENT

Principal terms of the Formal SP Agreement are summarised as follows:

Date

16 November 2015 (after trading hours)

Parties

Vendor	:	Sky-Linked International Limited
Purchaser	:	The Company
Guarantors to the Vendor	:	Mr. Cheng Ngok Fai and Mr. Li Ruiguang

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the entire issued share capital of the Vendor is indirectly beneficially owned as to 60% by Mr. Cheng Ngok Fai, the brother of Mr. Cheng Keung Fai, a substantial Shareholder holding approximately 55.77% of the total issued share capital of the Company as at the Latest Practicable Date, and as to 40% by Mr. Li Ruiguang, an Independent Third Party.

Background of the Guarantors

Mr. Cheng Ngok Fai has over 20 years of experience in vehicle repairing and trading business and currently focuses on garden construction and engineering related business. He is the general manager of a PRC company which is principally engaged in garden construction and engineering. Mr. Cheng Ngok Fai is the brother of Mr. Cheng Keung Fai, who is a substantial Shareholder holding approximately 55.77% of the total issued share capital of the Company as at the Latest Practicable Date.

Mr. Li Ruiguang has considerable management experience in energy, Chinese medicine and planting industries and currently focuses on the business relating to the construction of clean energy pipeline system. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Li Ruiguang is an Independent Third Party.

Assets to be acquired

Pursuant to the Formal SP Agreement, subject to the fulfillment or waiver of the conditions precedent, the Vendor has conditionally agreed to sell and the Company has conditionally agreed to acquire the Sale Shares, representing 49% of the entire share capital of the Target Company. The Target Company was wholly-owned by the Vendor as at the Latest Practicable Date. The Target Company has through Special Billion established the WFOE for the purpose of acquisitions of equity interests in the Project Companies. For further details of the Project Companies and their business activities, please refer to "Information on the Target Group – The Project Companies and their business activities" of this circular.

Consideration

The Consideration payable by the Company shall be HK$882,000,000, which shall be paid by the Company to the Vendor (or its nominee(s)) in the following manner:

(a) an amount of HK$60,000,000 in cash shall be settled by the Company within six months after the Completion Date by one single or multiple payment(s); and

(b) HK$822,000,000 by way of issuing Convertible Notes in the same principal amount to the Vendor or its nominee(s) on the Completion Date.

The Consideration was determined after arm's length negotiations between the Company and the Vendor. As at 30 September 2015, the audited net liabilities of the Target Group is approximately HK$1,023,000. The Company has appointed an independent qualified valuer, namely Hass Natural Resources Limited, to conduct a valuation on the business of the Target Group and the valuation report is set out in Appendix VI to this circular.

According to the valuation report as set out in Appendix VI to this circular, the value of the environmental thermoelectric projects held by the Target Group as of 31 December 2015 was approximately HK$2,461,000,000, equivalent to approximately HK$965 million to the effective interests to be held by the Company. Hence, the Consideration represents a discount of approximately 8.6% to the effective interests of the valuation. In arriving at such value, "Income Approach" is adopted to value the Project Companies. "Income Approach" focuses on the income-producing capability of a business or asset and measures the current value of a business or asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as of the valuation date.

Key assumptions adopted in the valuation include:

- Financial forecast of the Project Companies provided by the management of the Target Group for the period from year ending 31 December 2015 to 31 December 2020

- Discount rate of 18%

- Terminal growth rate of 3%

- Exchange rate of HKD/RMB at 1.1936

Please refer to Appendix VI to this circular for further information regarding the valuation on the business of the Target Group.

Based on the information provided by the Vendor, a total of 100 shares at US$1.00 each, being the entire issued share capital of the Target Company, were issued and allotted to the Vendor on 23 October 2015 at a total subscription price of US$100, which was fully settled in cash on the same date. The original cost for the Sale Shares to the Vendor was therefore US$49. In respect of the Project Companies, (a) Humen Project Company was established on 30 August 2013 in the PRC. As at the Latest Practicable Date, Humen Project Company has registered capital of RMB15,000,000 and paid-up capital of RMB100,000; and (b) Changan Project Company was established on 22 July 2015 in the PRC. As at the Latest Practicable Date, Changan Project Company has registered capital of RMB20,000,000 and no capital was injected since establishment. Further information in relation to the financial information of the Project Companies are set out in Appendix III to this circular.

Details of the Convertible Notes are set out in the section headed "Convertible Notes" below.

Guarantee

The Guarantors have agreed to, jointly and severally, and unconditionally guarantee the performance of obligations by the Vendor under the Formal SP Agreement.

Conditions Precedent

Completion is conditional upon the fulfillment of various conditions precedent, including without limitation:

(a) the Company having completed and being satisfied with the results from its due diligence review and investigations over the financial, legal, business, operational and other matters of the Target Group, and there being no material change adverse to the financial, legal, business, operational and other matters of the Target Group up to the Completion Date;

(b) acquisition of 80% equity interests in each of the Project Companies by the WFOE having been completed, i.e. the Reorganisation, and all registration and filing procedures necessary to be done in the PRC having also been completed;

(c) the Company having obtained the opinion of its PRC legal advisor to the satisfaction of the Company and in compliance with the requirements of the Stock Exchange, including, among other things, the due diligence reports of the WFOE and the Project Companies;

(d) the structure of the Target Group (as shown in the chart below which illustrates the shareholding structure of the Target Group immediately before the Completion) having been established;

(e) the Vendor and the Company having obtained all requisite internal and external approval(s), consent(s), licence(s), permit(s), authorisation(s), waiver(s) and/or exemption(s) in respect of the transactions contemplated under the Formal SP Agreement, including any approval and consent from regulatory authority(ies) (if applicable);

(f) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of and permission to deal in the Conversion Shares;

(g) the Independent Shareholders having passed resolutions at the SGM approving, among other things, the Formal SP Agreement and the transactions contemplated thereunder and the issue of Convertible Notes and the Conversion Shares in accordance with the Listing Rules; and

(h) the Company having complied with the relevant requirements in the Listing Rules and/or the Takeovers Code in relation to the Acquisition, the issue of Convertible Notes and Conversion Shares and other transactions contemplated under the Formal SP Agreement, and having satisfied the Stock Exchange and the SFC accordingly.

If the above conditions precedent cannot be fulfilled or waived entirely or partly by the Company in writing (except (b), (e) to (h) which cannot be waived) before 5:00 p.m. on the Long Stop Date (or such other date as agreed by parties to the Formal SP Agreement in writing), the Formal SP Agreement shall terminate and whereupon no party shall be liable to any of the other parties, save for in respect of claim(s) arising out of any antecedent breach(es) thereof.

As at the Latest Practicable Date, save for the conditions precedent (b) and (d) above, none of the above conditions precedent has been fulfilled and/or waived. Currently, the Company has no intention to waive any conditions and the Company is not aware of any circumstance under which the Company will waive any conditions.

As advised by the Vendor, the actual cost that has incurred by the WFOE for acquisition of the Project Companies is approximately RMB28,000,000, which is determined on arm's length basis with reference to the total registered capital of the Project Companies and 80% equity interests respectively owned by the WFOE. The Consideration therefore represents a substantial difference of the consideration paid by the WFOE in acquiring 80% of the Project Companies. Nonetheless, having taking into account of: (a) the valuation conducted by an independent qualified valuer on the business of the Target Group, which amounted to approximately HK$2,461 million (or equivalent to approximately HK$965 million to the effective interests to be held by the Company), representing a discount of approximately 8.6% to the effective interests of the valuation; (b) the profit guarantee provided by Warrantors for the three years ending 31 December 2018 as detailed below under the paragraph headed "Profit Guarantee" in this Letter from the Board; (c) the reasons and benefits of the Acquisition as detailed under the paragraph headed "Reasons for and benefits of the Acquisition" in this Letter from the Board; (d) the prospects of the Project Companies as detailed under the paragraph headed "Prospects of the Project Companies" in Appendix IV of this circular; and (e) the future income stream and benefits forgone by the Vendor under the Acquisition, the Directors consider that the Consideration, though is substantially higher than the consideration paid by the WFOE in acquiring the Project Companies, is determined on arm's length basis and is fair and reasonable.

The Company came to learn about the project and the business opportunity at the outset through the Vendor, which is ultimately owned by Mr. Cheng Ngok Fai and Mr. Li Ruiguang, and had no knowledge of the original owners of the Project Companies. During the negotiation with the Vendor, it was the Company's understanding that the Vendor would coordinate and liaise with the original owners of the Project Companies and a reorganisation would take place to facilitate the Acquisition, hence the Memorandum and the Formal SP Agreement were entered into on 22 October 2015 and 16 November 2015 respectively between the Vendor and the Company in order to proceed further for the Acquisition. As the Company did not know the original owners of the Project Companies at that juncture, no memorandum nor any agreement was entered into with the original owners of the Project Companies.

The acquisition of Humen Project Company by the WFOE was approved by the shareholders of Humen Project Company on 7 January 2016 and the《核准變更登記通知書》(粵莞核變通內字(2016)第1600013567號) (The Approval of Change of Particulars of the Registration (Yue Guan He Bian Tong Nei Zi (2016) No.1600013567)*) approving the said acquisition was issued by the Administration of Industry and Commerce of Dongguan City on 8 January 2016.

The acquisition of Changan Project Company by the WFOE was approved by the shareholders of Changan Project Company on 7 January 2016 and the《核准變更登記通知書》(粵莞核變通內字(2016)第1600013578號) (The Approval of Change of Particulars of the Registration (Yue Guan He Bian Tong Nei Zi (2016) No.1600013578)*) approving the said acquisition was issued by the Administration of Industry and Commerce of Dongguan City on 8 January 2016.

Profit Guarantee

The Warrantors, jointly and severally, unconditionally and irrevocably guarantee to the Company that the Target Net Profit for the relevant year shall not be less than the following amounts:

Relevant year	Guaranteed consolidated audited profit after tax
1 January 2016 to 31 December 2016	HK$24,500,000
1 January 2017 to 31 December 2017	HK$53,900,000
1 January 2018 to 31 December 2018	HK$112,700,000

If the Target Net Profit for any of the three relevant years falls below the above guaranteed amount for the relevant year, the Vendor shall on 31 May after the end of the relevant year pay to the Company, an amount equal to the difference between the guaranteed consolidated audited profits after tax for the relevant year and the Target Net Profit for the same year. In the event that the Target Net Profit is a negative figure (i.e. the Target Group makes loss), for calculation of the difference, the Target Net Profit shall be deemed to be zero (the "**Amount in Difference**"). If the Vendor fails to pay to the Company the Amount in Difference on or before 31 May after the end of each relevant year, the Company shall be entitled to either (i) set-off the Amount in Difference by cancelling the same principal amount of Convertible Notes from those held in escrow for the relevant year. The Company shall return to the Vendor the remaining Convertible Notes held in escrow for the relevant year within 5 Business Days after such cancellation; or (ii) if the Convertible Notes have been converted into Conversion Shares, the Vendor shall irrevocably authorise the Company to sell part of or all of the Conversion Shares at the then market trading price on the Stock Exchange for payment of the Amount in Difference; and the Vendor shall pay the difference between the proceeds of the sold Conversion Shares and the Amount in Difference in cash. In the event that the Target Net Profit falls below the guaranteed profit, the Company will comply with the disclosure requirements in accordance with Rule 14A.63 of the Listing Rules.

If the Target Net Profit for each of the three years achieves the above guaranteed amount for the relevant year, the Company shall return the Convertible Notes held in escrow, amounting to the relevant amount, to the Vendor on 31 May after the end of the relevant year.

In arriving at the guaranteed profits of the Target Group for the three relevant years, the Board has taken into account (i) future prospects of the Project Companies as detailed under the paragraph headed "Reasons for and benefits of the Acquisition" in this Letter from the Board and the paragraph headed "3. Prospects of the Project Companies" in Appendix IV to this circular; (ii) the potential business performance, including contracts and/or memoranda of understanding signed and lists of existing and potential customers of the Project Companies (as at the Latest Practicable Date, the Humen Project Company has entered into 9 contracts (of which the term of the contract is 2 years, the unit price for the steam is RMB219 per ton and the minimum guaranteed usage of steam, where specified in the contracts, is between 0.5 ton per hour and 5 tonnes per hour) and 24 memoranda of understanding (of which the volume of the steam to be supplied is between 1 ton/hour and 13.5 tonnes/hours, the temperature of the steam is between 150°C and 200°C and the pressure of the steam is between 0.5 MPa to 0.9 MPa) with more than 30 customers/potential customers and the Changan Project Company has entered into 4 memoranda of understanding (of which the volume of the steam to be supplied is between 4 tonnes/hour and 50 tonnes/hours, the temperature of the steam is 180°

C and the pressure of the steam is between 0.7 MPa and 0.8 MPa) with 4 potential customers); and (iii) sales target for the three relevant years estimated by the Vendor at the time of Acquisition. On this basis, the Board is of the view that notwithstanding the Company is investing in the Project Companies that have no track record, in view of the mandatory policy implemented by the local government of Dongguan City to close down high polluting coal-fired boilers, the Board is of the view that it is necessary for the factories to look for alternatives for heat and steam supply for their production and the Company is therefore confident to the future prospects of the Target Group. The Directors are of the view that the guaranteed profits of the Target Group for the three relevant years were arrived at after arm's length negotiations between the parties of the Acquisition, having considered the above factors, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Details of the Convertible Notes in escrow are set out in the section headed "Convertible Notes in Escrow or Pledge of Convertible Notes" below.

Convertible Notes in Escrow or Pledge of Convertible Notes

The Vendor agrees to deposit part of the Convertible Notes, amounting to a principal amount of HK$191,100,000, to the Company to hold in escrow or to pledge such Convertible Notes to the Company or any of its nominees on the Completion Date. During the period when such Convertible Notes are being held in escrow or pledged, they can still be converted into Conversion Shares provided that such Conversion Shares shall be held by the Company in escrow or pledged to the Company or any of its nominees until 31 May 2019.

The principal amount of the Convertible Notes which the Vendor agrees to deposit to the Company is HK$191,100,000, which is equal to the aggregate amount of the Target Net Profit for the three years ending 31 December 2018 guaranteed by the Warrantors.

Having considered the third party market research analysis in relation to the prospects of the projects conducted by the Project Companies (including (i)《2015-2020年中國熱電聯產行業深度調查及投融資戰略研究報告》(The Report on the In-depth Investigation and Research on the Investment and Financing Strategies in the Cogeneration Industry of the PRC for the Years from 2015 to 2020*) issued by 中商產業研究院 (ASKCI Consulting Co., Ltd); (ii)《2013-2018年中國熱電聯產行業深度調查及投融資戰略研究報告》(The Report on the In-depth Investigation and Research on the Investment and Financing Strategies in the Cogeneration Industry of the PRC for the Years from 2013 to 2018*) issued by 中商產業研究院 (ASKCI Consulting Co., Ltd); (iii)《集中供熱行業深度報告系列之一(小鍋爐治理，大市場空間)》(Series Report on the Centralised Heat Supply Industry (Control of the Furnaces and its Broad Market Space)*) issued by 安信證券 (Essence Securities) dated 2 September 2015; and (iv)《2012年城市供熱行業風險分析報告 》(Risk Analysis Report on the Urban Heat Supply Industry for the Year 2012*) issued by北京世經未來投資諮詢有限公司 (Beijing Shijing Weilai Investment Consulting Company Limited*) and 中國農業銀行 (Agricultural Bank of China)) and having assessed the risk control effect of the pledge, the Directors consider that the pledge of part of the Convertible Notes and the amount of such pledged Convertible Notes will provide incentives to the Project Companies to generate more revenue which will effectively ensure the performance of the Formal SP Agreement and eventually safeguard the interest of the Company and the Shareholders.

Completion

Completion shall take place within 5 Business Days after the fulfillment of the conditions precedent, or such other date as may be agreed in writing among the parties to the Formal SP Agreement.

CONVERTIBLE NOTES

The principal terms of the Convertible Notes are summarised as follows:

Issuer:	The Company
Holder of the Convertible Notes:	The Vendor (or its nominee(s))
Principal amount:	The aggregate principal amount of the Convertible Notes is HK$822,000,000.
Issue price:	HK$822,000,000, representing 100% of the principal amount of the Convertible Notes.
Interest:	The Convertible Notes are non-interest bearing.
Security:	The Convertible Notes shall be unsecured.
Conversion Price:	The initial Conversion Price of HK$0.80 per Conversion Share represents (i) a discount of approximately 46.31% to the closing price of HK$1.49 per Share on 16 November 2015, the date of the Formal SP Agreement, (ii) a discount of approximately 44.06% to the average closing price of approximately HK$1.43 per Share as quoted on the Stock Exchange for the 5 trading days immediately prior to the date of the Formal SP Agreement, (iii) a discount of approximately 24.53% to the closing price of HK$1.06 per Share as quoted on the Stock Exchange on 29 February 2016, being the Latest Practicable Date, and (iv) a discount of approximately 15.79% to the net asset value per Share of approximately HK$0.95 (unaudited) as at 30 June 2015.

The Conversion Price will be subject to adjustment for subdivision or consolidation of Shares, issue any Shares credited as fully paid by way of capitalisation of profits or reserves (other than Shares issued in lieu of the whole or any part of a cash dividend), capital distribution to Shareholders provided that the Conversion Price shall not be less than the par value of a Share, rights issues or options over shares at a price less than 80% of the then market price per Share, rights issues of other securities (other than shares or options, warrants or other rights to subscribe for or purchase shares), issue wholly for cash any shares other than shares issued on the exercise of conversion rights or on the exercise of any other rights of conversion into, or exchange or subscription for, shares or on the issue or grant of options, warrants or other rights to subscribe for or purchase shares at less than 80% of the then market price per Share, other issues of securities (other than notes issue) which carry rights of conversion into, or exchange or subscription for, shares wholly for cash at less than 80% of the then market price per Share, modification of rights of conversion, exchange or subscription attaching to the securities, other offers to Shareholders generally or other events that the Company considers as appropriate. The initial Conversion Price was determined after arm's length negotiation between the parties with reference to historical closing prices of Shares.

Subsequent to the entering of the Memorandum dated 22 October 2015 (after trading hours) setting out the preliminary terms and understanding in relation to the Acquisition, the trading prices of the Shares have risen from the closing price of HK$0.82 per Share on 22 October 2015 to HK$1.14 per Share on 23 October 2015, representing an increase of approximately 39%. From 23 October 2015 to the date of signing of the Formal SP Agreement, the closing prices of Shares were trading above HK$1.00 and have closed ranging between the lowest of HK$1.14 per Share on 23 October 2015 to the highest of HK$1.50 per Share on 30 October 2015, with an average closing price of approximately HK$1.386 per Share. The Vendor and the Company are of the view that the increases of the trading prices of the Shares subsequent to the entering of the Memorandum have generally reflected the market perception of the possible Acquisition, which is overall positive.

After arm's length negotiation between the Vendor and the Company, it is agreed that the Conversion Price be fixed at the price of HK$0.80, representing at approximately: (a) the average 5-day closing price of the Shares before the date of the Memorandum of approximately HK$0.796 per Share; (b) the average 5-day closing price of the Shares up to and including the date of the Memorandum of approximately HK$0.802 per Share; and (c) the average 10-day closing price of the Shares up to and including the date of the Memorandum of approximately HK$0.801 per Share. Based on the aforesaid, although the Directors noted that the Conversion Price represents a relatively large discount to the average closing price of Shares before the date of the Formal SP Agreement, the Directors consider that the Conversion Price is determined on normal commercial terms and is fair and reasonable.

Conversion Shares: Assuming the aggregate principal amount of the Convertible Notes is HK$822,000,000, and upon full conversion of the Convertible Notes at the initial Conversion Price, the Convertible Notes will be convertible into a maximum of 1,027,500,000 Shares, representing:

(i) approximately 61.07% of the existing issued share capital of the Company as at the Latest Practicable Date; and

(ii) approximately 37.91% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Notes.

The Conversion Shares to be issued upon exercise of the conversion rights attached to the Convertible Notes will be issued under the Specific Mandate to be approved by the Independent Shareholders at the SGM.

Maturity Date: The expiry of 42 months from the Issue Date.

Status: The Convertible Notes constitute direct, unsubordinated, unconditional and unsecured obligations of the Company and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Convertible Notes shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. No application will be made for a listing of the Convertible Notes on the Stock Exchange or any other stock exchange.

Transferability:	Unless the Noteholder transfers the Convertible Notes to its wholly-owned subsidiaries or holding companies, the Noteholder may only assign or transfer the Convertible Notes to a transferee (other than a connected person of the Company) subject to the consent of the Company. The Convertible Notes may be assigned or transferred in whole or in part (in whole multiples of HK$10,000,000) of its outstanding principal amount upon the payment in full and the Company shall facilitate any such assignment or transfer of the Convertible Notes, including making any necessary applications to the Stock Exchange for the said approval (if required).
Conversion Rights:	The Noteholders have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Notes registered in its name into Shares provided further that any conversion shall be made in amounts of not less than a whole multiple of HK$10,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Notes is less than HK$10,000,000, the whole (but not part only) of the outstanding principal amount of the Convertible Notes may be converted.
Conversion Pre-requisite:	The Noteholders shall have the right at any time from the Issue Date to the Maturity Date to convert any outstanding amount of the Convertible Notes into the Conversion Shares at the Conversion Price, provided that the conversion right attached to the Convertible Notes shall only be exercisable by the Noteholders: (i) so long as the public float of at least 25% of the issued share capital of the Company as enlarged by the issue of Conversion Shares can be maintained; and (ii) so long as such Noteholder and parties acting in concert (as defined in the Takeovers Code) with it immediately after such exercise shall not be required to make a general offer under Rule 26 of the Takeovers Code.
Ranking:	The Conversion Shares will rank pari passu in all respects with the Shares then in issue.
Redemption:	The Convertible Notes may be early redeemed at any time before the Maturity Date at the face value by agreement between the Company and the Noteholders holding not less than 75% of the Convertible Notes then outstanding.

Events of default: Any Noteholder may give notice to the Company that the Convertible Notes are immediately due and repayable if:

(i) the Company fails to pay the principal amount when due or the Company fails to pay interest (if any), premium (if any) on the Convertible Notes when due; or

(ii) the Company defaults in performance or observance or compliance with any of its other obligations set out in the conditions of the Convertible Notes and such default continues for the period of 14 days next following the service by any Noteholder on the Company of notice specifying brief details of such default and requiring such default to be remedied; or

(iii) an order of a court of competent jurisdiction is made or an effective resolution is passed for winding-up or dissolution of the Company or the Company disposes of all or substantially all of its assets otherwise than for the purposes of or pursuant to a consolidation, amalgamation, merger or reorganization; or

(iv) an encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of the Company; or

(v) a distress, execution or seizure before judgment is levied or enforced upon or sued out against a material part of the property of the Company and is not discharged within 3 days thereof; or

(vi) the Company becomes insolvent or is unable to pay its debts as they mature; or

(vii) proceedings shall have been initiated against the Company under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 21 days.

APPLICATION FOR LISTING

An application will be made by the Company to the Listing Committee for the listing of and permission to deal in the Conversion Shares. No application will be made for the listing of the Convertible Notes.

EFFECTS OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE

For illustration purpose only, set out below is the shareholding structure of the Company: (a) as at the Latest Practicable Date and (b) immediately upon full conversion of the Convertible Notes at the initial Conversion Price.

Shareholders	**As at the Latest Practicable Date**		**Immediately upon full conversion of the Convertible Notes at the initial Conversion Price**	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*
Full Dragon Group Limited *(Notes 1 and 2)*	938,309,250	55.77	938,309,250	34.62
The Vendor *(Note 2)*	–	–	1,027,500,000	37.91
Other public shareholders	744,228,254	44.23	744,228,254	27.47
Total	1,682,537,504	100.00	2,710,037,504	100.00

Notes:

1. The entire issued share capital of Full Dragon Group Limited is owned by Mr. Cheng Keung Fai. Full Dragon Group Limited has granted (i) a security interest over 58.39% of the total issued share capital of the Company as at the date of the grant and (ii) a call option to acquire 149,809,676 Shares of the total issued share capital of the Company, to a subsidiary of Central Huijin Investment Limited, details of which were disclosed in the announcement of the Company dated 4 May 2015.

2. The conversion right attached to the Convertible Notes shall only be exercisable by the Noteholders (i) so long as the public float of at least 25% of the issued share capital of the Company as enlarged by the issue of Conversion Shares can be maintained; and (ii) so long as such Noteholder and parties acting in concert (as defined in the Takeovers Code) with it immediately after such exercise shall not be required to make a general offer under Rule 26 of the Takeovers Code.

As illustrated in the above, there may be a change of control of the Company upon full conversion of the Convertible Notes.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

Date of announcement	Fund raising activity	Net proceeds raised	Proposed use of the net proceeds	Actual use of the net proceeds
6 November 2015	Placing of new shares under general mandate	Approximately HK$194.87 million	Repayment of interest expenses, ticking fee, any potential investments in the future (which may include the possible acquisition of the equitable interest in the Project Companies under the Memorandum) and as general working capital.	Approximately HK$160.93 million was utilised as intended uses and the remaining net proceeds, being approximately HK$33.94 million, were placed in a financial institution and would be used to finance the Acquisition and/or for general working capital use.
12 August 2015 and 15 February 2016	Issue of guaranteed secured convertible notes due 2017	Approximately not more than HK$230.55 million	To be used for part of funding for the SPV Acquisition (as defined in the announcement of the Company dated 12 August 2015).	The issue of the convertible notes has lapsed since the conditions precedent have not been satisfied or waived as at the long stop date, being 15 February 2016.
27 May 2015	Placing of warrants under specific mandate	Approximately HK$13.5 million (after deducting related placing commissions and other related expenses)	Repayment of interest expenses.	Fully utilised as intended use.
10 December 2014	Issue of US$20 million guaranteed secured notes due 2018	Not more than US$19,179,000 (equivalent to approximately HK$148,638,000)	For its residential property development projects and as general working capital.	Fully utilised as intended use.

Save as disclosed above, the Company had not conducted any other equity fund raising activities in the past twelve months immediately prior to the Latest Practicable Date.

INFORMATION ON THE TARGET GROUP

The Target Company and its subsidiaries

The Target Company is an investment holding company, the issued share capital of which is wholly-owned by the Vendor as at the Latest Practicable Date. The Target Company currently owns the entire issued share capital of Special Billion, which is an investment holding company.

The Target Company has through Special Billion established the WFOE for the purpose of acquisitions of equity interests in the Project Companies.

The Project Companies and their business activities

As at the Latest Practicable Date, the entire issued share capital of each of the Project Companies is owned as to 80% by WFOE and as to 20% by Dongguan Deci.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Dongguan Deci is an Independent Third Party.

Regulatory requirements

The below sets out the regulatory requirements for the industry in which the Project Companies operate:

A. 《廣東省企業投資項目備案辦法》(粵府(2005) 120號) (The Enterprise Investment Project Filing Approach in the Guangdong Province*) (Yue Fu (2005) No. 120) (the "Approach"):

The Approach sets out the filing system of the investment projects in the Guangdong Province, save for certain exemptions prescribed under the Approach. The authority shall examine the information provided by the application, and approve filing for those projects which satisfy the filing requirements. The authority will then issue a corresponding filing certificate to the applicant.

B. 《廣東省人民政府辦公廳關於印發廣東省企業投資項目管理分類改革目錄(暫行)的通知》(粵府辦(2013) 6號) (The Notice on (Provisional) Management Classification Reform Directory for Enterprise Investment Projects in the Guangdong Province issued by the General Office of the Guangdong Provincial People's Government*) (Guangdong Government Office (2013) 6)

In relation to gas pipeline network (excluding oil and gas pipeline networks), projects across provinces, districts and cities or with annual gas transmission capacity of more than 5 billion cubic meters (excluding 5 billion cubic meters) requires approval from the investment department of the State Council. Other projects which are subject to the approval at provincial level shall be managed by the corresponding provincial or local filing system.

According to the《廣東省企業基本建設投資項目備案證》（備案項目編號：141903443000730）(“Guangdong Province Enterprise Infrastructure Investment Project Filing Certificate”*) (Filing No. 141903443000730) issued by the Dongguan City Development and Reform Bureau, the Humen Project Company has completed the requisite filing requirement for starting the pipeline projects for the centralized heat supply pipeline works in Humen Town area.

C. ***《廣東省建設項目環境保護管理條例》(廣東省第十一屆人民代表大會常務委員會公告第85號) (Construction Project Environmental Protection Management Regulations of The Guangdong Province*) (Bulletin No. 85 of the Eleventh Standing Committee of the People’s Congress of the Guangdong Province) (the “Bulletin 85”)***

The Bulletin 85 provides that the construction unit shall, in construction project feasibility study stage, complete the approval of the environmental impact assessment report. In case there is no such construction project feasibility study stage, the completion of the approval shall be done when the project venue is confirmed or project designed is accomplished. The report can be in the form of a report, a report form or a checklist. The authority shall accordingly approve the report within 60 days (in respect of a report), 30 days (in respect of a report form) or 15 days (in respect of a checklist) after such report is submitted.

According to 關於虎門鎮片區集中供熱工程配套熱力管網(第一期)(新建)建設項目環境影響報告表的批復》(東環建(虎)(2015)303號) (The Approval on the Construction Project Environmental Impact Report Form Concerning the Pipelines for Heat Supply (Phase One) (New Built) for the Centralized Heat Supply Pipeline Works at the Humen Town Area*) (Dong Huan Jian (Hu) (2015) No. 303), the Humen Project Company has obtained the approval regarding the report form submitted to the authority.

D. ***《廣東省城鄉規劃條例》(廣東省第十一屆人民代表大會常務委員會公告第90號) (The Urban and Rural Planning Regulation of the Guangdong Province*) (Bulletin 90 of the Eleventh Standing Committee of the People’s Congress of the Guangdong Province) (the “Bulletin 90”)***

The Bulletin 90 provides that a construction unit or individual shall apply to relevant authority a permit for construction projects involving building, structures, roads and pipelines.

According to《關於出具虎門鎮片區集中供熱工程配套熱力管網工程規劃許可的審查意見》(管字第2015-03-3014) (The Review Opinion on the Planning Permission for the Centralized Heat Supply Pipeline Work Planning at the Humen Town Area*) (No. 2015-03-3014) issued by the City and Rural Planning Bureau of the Dongguan City, the Humen Project Company has obtained the requisite planning approval relating to the construction of the steam transmission pipeline system in the district centralised heat supply project in Humen Town.

E. ***建築工程施工許可管理辦法(住房和城鄉建設部令第18號) (The Building Construction Licence Management Approach*) (Housing and Urban-Rural Development Order No. 18) (the “No. 18 Order”)***

The No. 18 Order provides that an entity engaged in the construction of various types of houses and buildings and ancillary facilities including supporting lines and pipelines shall apply from the relevant authority, before the commencement of work, the construction works permit.

According to《建築工程施工許可證(供熱類)》(編號：44190020151104G116) (The Construction Works Permit (for Heat Supply)*) (No. 44190020151104G116), the Humen Project Company has obtained the construction works permit.

Both Project Companies are designed to engage in the energy saving environmental protection project by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in certain areas in Humen Town and Changan Town respectively. The Humen Project Company has obtained the approvals from the Dongguan Development & Reform Bureau and is going to construct steam transmission pipelines of approximately 46,000 metres with annual production capacity of approximately 2,300,000 tonnes of steam. As at 31 December 2015, approximately 3,000 metres of steam transmission pipeline has been constructed. The remaining construction work of steam transmission pipeline system by Humen Project Company is expected to be completed by the end of 2016. According to the Vendor, the total investment of the project is estimated to be approximately RMB328 million. The Changan Project Company has been registered with the Dongguan Development & Reform Bureau for construction of steam transmission pipelines of approximately 42,000 metres, with annual production capacity of approximately 4,200,000 tonnes of steam. According to the recent field survey, the expected length of the steam transmission pipelines to be constructed by the Changan Project Company may fall in between 42,000 metres and 58,000 metres (subject to the final approved length as shown on the construction work permit (施工許可證)). The Changan Project Company will file the revised length (if any) of the steam transmission pipelines to the Dongguan Development & Reform Bureau for record. The total investment of the project is estimated to be approximately RMB465 million. According to the Vendor, the Humen Project Company has commenced the distribution of steam and heat in the end of 2015. For the aggregate amount of capital investment of RMB793 million of the Project Companies, the Group currently expects that approximately 30% of which will be financed by internal resources and approximately 70% of which will be from other financing means which included bank borrowings.

In August 2015, the Guangdong provincial government promulgated the "Guangdong Province Boiler Pollution Remediation Plan 2015 – 2018" to promote and encourage the central heating cogeneration and small coal-fired boiler replacement policy. The local government of Dongguan City has mandatory policy requesting that factories that are using small coal-fired boilers with steam capacity of 10 tonnes per hour or below shall be closed down by 1 January 2016 and utilize centralized heat and steam supply. Based on the aforesaid and to the best of knowledge, information and belief of the Company, the Project Companies are the first centralized heating supply companies in the Humen and Changan areas and it is expected that they could enjoy the first-mover advantages by providing heat and steam produced by a nearby power plant in Dongguan City to industrial customers in the areas.

Based on the existing business model, the Project Companies will work closely with state-owned construction companies entitled by the government which in turn will be responsible for constructing the pipelines connecting the power plant and the factories of the customers. The Humen Project Company has entered into an agreement with an independent state-owned company, pursuant to which the independent state-owned company agreed to construct the centralised heat supply pipelines (approximately 3,000 metres) at the Humen Town area at the initial consideration of RMB7,500,000 (including the costs of the construction materials and subject to the adjustment of the actual construction work). The construction period under the said agreement is from 1 August 2015 to 29 September 2015. The construction under the said agreement was completed in December 2015. As informed by the Vendor, as at the Latest Practicable Date, no agreement has been entered into by the Changan Project Company in relation to the construction of the centralised heat supply pipelines at the Changan Town. A steam flow equipment (meter) will be installed at each of the factories for the purpose of measuring the amount of usage of heat and steam by customers in tonnes. The fees for the relevant consumption will be deducted from the money prepaid and deposited by the customers in the recharging cards issued by the Project Companies. The Board is of the view that the Acquisition will allow the Company to tap into this potential business and provide sustainable and further income to the Group going forward.

Management of the Project Companies

The management team of each of the Project Companies consists of the following persons:

1. Mr. Xiang Junjie (向俊杰) ("Mr. Xiang")

Mr. Xiang has over 6 years of experience in enterprise management in the PRC. Mr. Xiang graduated with a Bachelor's Degree in Electronic Commerce from the Department of Electronic Commerce at South China University of Technology, the PRC in July 2008. Mr. Xiang is currently the chief executive officer of each of the Project Companies.

2. Mr. Ji Jianguo (季建國) ("Mr. Ji")

Mr. Ji has over 12 years of experience in planning, construction and management of the construction projects. Mr. Ji also participated in the research and development of the patent relating to the design of the overlength centralised heat supply pipeline system and its implementation. Mr. Ji is currently the chief engineer of each of the Project Companies.

3. Mr. He Yuexiong (何越雄) ("Mr. He")

Mr. He is a senior engineer and graduated with a Bachelor's Degree in Engineering from Northeastern Electric College (Changchun). He is familiar with and possesses professional knowledge about the operation of electric power plants and the development and the application of the cogeneration technology. Mr. He is currently the vice general manager of each of the Project Companies.

Particulars of the approvals obtained by the Humen Project Company

On 26 November 2014, Dongguan Development and Reform Bureau issued an approval, namely,《廣東省企業基本建設投資項目備案證》(備案項目編號：141903443000730）(Guangdong Province Enterprise Infrastructure Investment Project Filing Certificate*) (Filing No. 141903443000730), to the Humen Project Company, registering its project to develop a centralized heat supply by steam transmission pipelines network in Humen Town. The project involves a construction of approximately 5,000 meters of steam transmission pipelines, with a total capital investment of approximately RMB21,370,000, with the product of "steam" and an annual production capacity of approximately 115,200 tonnes of steam and the original timetable was that the construction would begin in January 2015 and complete in December 2015.

On 14 September 2015, Dongguan Development and Reform Bureau further issued a reply letter, namely,《關於虎門鎮片區集中供熱工程配套熱力管網專案變更生產規模及投資規模的復函》（東發改資環能源函(2015)389號）(Reply to the Amendment on the Production and Investment Size of the Centralized

Heat Supply by Steam Transmission Pipeline at the Humen Town Area*) (Dong Fa Gai Zi Huan Neng Yuan Han (2015) No. 389) (the "**Reply**"), to the Humen Project Company, approving the following amendments to the abovementioned centralized heat supply project: (i) the annual production capacity to be approximately 2,300,000 tonnes of steam; (ii) the length of the steam transmission pipelines to be approximately 46,000 meters; and (iii) the total capital investment to be approximately RMB600,764,300 (with RMB300,382,150 of it designated to civil engineering investment). Save for the above, the previous approval, namely, 《廣東省企業基本建設投資項目備案證》(備案項目編號：141903443000730) (Guangdong Province Enterprise Infrastructure Investment Project Filing Certificate*) (Filing No. 141903443000730), remains valid.

Save for the Reply as mentioned above, the Humen Project Company has also obtained the following licenses or approvals:

1. 《關於出具虎門鎮片區集中供熱工程配套熱力管網工程規劃許可的審查意見》(管字第2015-03-3014)(The Review Opinion on the Planning Permission for the Centralised Heat Supply Pipeline Work Planning at the Humen Town Area*) (No. 2015-03-3014) issued by the City and Rural Planning Bureau of the Dongguan City on 20 August 2015, which approved the issuance of the planning approval relating to the construction of the steam transmission pipeline system in the district centralised heat supply project in Humen Town;

2. 《關於虎門鎮片區集中供熱工程配套熱力管網(第一期)(新建)建設項目環境影響報告表的批復》(東環建(虎)(2015)303號)(The Approval on the Construction Project Environmental Impact Report Form Concerning the Pipelines for Heat Supply (Phase One) (New Built) for the Centralised Heat Supply Pipeline Works at the Humen Town Area*) (Dong Huan Jian (Hu) (2015) No. 303) issued by Dongguan City Environmental Protection Bureau on 20 August 2015, which allowed the Humen Project Company to construct the steam transmission pipeline system in the district centralised heat supply project in Humen Town (first phase); and

3. 《建築工程施工許可證(供熱類)》(編號：44190020151104G116) (The Construction Works Permit (for Heat Supply)*) (No. 44190020151104G116) issued by Dongguan City Urban Comprehensive Management Bureau on 4 November 2015, which approved the construction of the steam transmission pipeline system in the district centralised heat supply project in Humen Town.

The Humen Project Company has obtained all necessary licenses or approvals to construct the steam transmission pipeline system.

Particulars of the approval obtained by the Changan Project Company

On 13 August 2015, Dongguan Development and Reform Bureau issued an approval, namely,《廣東省企業投資項目備案證》(備案項目編號：20154419004403006815) (Guangdong Province Enterprise Investment Project Filing Certificate*) (Filing No. 20154419004403006815), to the Changan Project Company, registering its project to develop a centralized heat supply by steam transmission pipelines network in Changan Town. The project involves a construction of approximately 42,000 meters of steam transmission pipelines with diameter of 0.8 metres, with a total capital investment of approximately RMB1,200,000,000 with the product of "steam" and an annual production capacity of approximately 4,200,000 tonnes of steam. The construction is expected to be completed in December 2017.

As confirmed by the Vendor, save for the above, the Changan Project Company has not obtained any license/permit, and is not in the application for any license/permit. The Changan Project Company was conducting certain preparation work and customer visits as at the Latest Practicable Date.

The estimated timeline for obtaining the licenses/approvals required for its business by Changan Project Company is as follow:

	Licenses/Approvals	Estimated Timeline
1.	《關於長安鎮片區集中供熱工程配套熱力管網項目的工程規劃許可》(The Planning Permission for the Centralised Heat Supply Pipeline Work Planning at the Changan Town Area*) issued by the City and Rural Planning Bureau of the Dongguan City	Before May 2016
2.	《關於長安鎮片區集中供熱工程配套熱力管網項目的環境影響報告表的批覆》(The Approval on the Construction Project Environmental Impact Report Form Concerning the Pipelines for Heat Supply for the Centralised Heat Supply Pipeline Works at the Changan Town Area*) issued by Dongguan City Environmental Protection Bureau	Before May 2016
3.	《建築工程施工許可證(供熱類)》(The Construction Works Permit (for Heat Supply)*) issued by Dongguan City Urban Comprehensive Management Bureau regarding the construction of the steam transmission pipeline system in the district centralised heat supply project in Changan Town	Before May 2016

As at the Latest Practicable Date, the Company is not aware of any foreseeable legal impediments for obtaining the above licenses/approvals.

Supply of Steam

As at the Latest Practicable Date, the Humen Project Company has entered into an agreement with 廣東電力發展股份有限公司沙角A電廠 (Guangdong Electric Power Development Company Limited Shajiao A Power Plant*) ("**Shajiao Power Plant**") pursuant to which the Humen Project Company would connect its pipelines to Shajiao Power Plant and Shajiao Power Plant would supply the steam to the Humen Project Company via the pipelines. The principal terms of the said agreement are set out as follow:

Parties	:	(1) Shajiao Power Plant; and (2) Humen Project Company As advised by the Vendor, the Shajiao Power Plant is a branch of 廣東電力發展股份有限公司 (Guangdong Electric Power Development Company Limited*) ("**Guangdong Electric Power**"), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000539). The major shareholder of Guangdong Electric Power is 廣東省粵電集團有限公司 (Guangdong Yue Dian Group Company Limited*) ("**Guangdong Yue Dian**"), a state-controlled company in the PRC, which, based on publicly available information, holds approximately 67.39% of the issued shares capital of Guangdong Electric Power. As confirmed by the Vendor, Guangdong Yue Dian has no relationship with the Vendor and its associates. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Guangdong Yue Dian has no relationship with the Company and its connected persons.
Term	:	From 1 October 2015 to 30 September 2017
Consideration	:	The benchmark price for the steam supplied is RMB139 per ton (tax included), which is subject to the change in the price of the coal and will be reviewed quarterly
Settlement	:	The total price for the steam supplied by Shajiao Power Plant will be settled on monthly basis based on actual volume of the steam received

To the best knowledge of the Directors, the annual production capacity of steam and/or heat of the Shajiao Power Plant, as at the Latest Practicable Date, is 3.74 million tonnes.

As confirmed by the Vendor, as at the Latest Practicable Date, no agreement was entered into by Changan Project Company with any power plant regarding the connection of its pipelines and the supply of the steam. Therefore, as at the Latest Practicable Date, there was only one power plant which the Project Companies have agreed to connect their pipelines to.

To ensure that the Target Group will have sufficient management expertise to oversee and operate the business of the Project Companies in the future and the change in ownership of the Target Group will have minimal effect on the business operation and performance of the Project Companies after Completion, the Company intends to retain the existing management team of the Project Companies to oversee the day-to-day operation and management of the Project Companies after Completion. The Company will appoint Mr. Li Wenjun (the executive Director) and Mr. Lam Kwong Shu (the chief operating office of the Company) to be the board of directors of the WFOE to oversee the business operation of the Project Companies. When necessary, the Company will also identify suitable candidates with the relevant management expertise and industry experience to manage the operation of the Project Companies in the future. Save as disclosed above, there is no other recruitment plan for the senior management of the Project Companies in contemplation.

Financial information of the Target Group

The following table sets out the audited financial information of the Target Group for the two financial years ended 31 December 2013 and 31 December 2014 and the nine months ended 30 September 2015:

	For the period ended 31 December 2013	**Year ended 31 December 2014**	**For the nine months ended 30 September 2015**
	HK$	*HK$*	*HK$*
	(Note 1)	*(Note 2)*	*(Note 3)*
Revenue	–	–	–
Loss before taxation	–	(946,000)	(1,501,000)
Loss and total comprehensive loss for the year/period	–	(946,000)	(1,501,000)
	As at 31 December 2013	**As at 31 December 2014**	**As at 30 September 2015**
Total assets	125,000	20,000	3,441,000
Net assets/(liabilities)	125,000	(71,000)	(1,023,000)

Note 1: The financial information consists of the audited financial information of Humen Project Company for the period from its date of establishment, i.e. 30 August 2013 to 31 December 2013.

Note 2: The financial information consists of the audited financial information of Humen Project Company for the year ended 31 December 2014.

Note 3: The financial information consists of the combined information of the audited financial information of Humen Project Company for the 9 months ended 30 September 2015, the audited financial information of Changan Project Company for the period from its date of establishment, i.e, 22 July 2015 to 30 September 2015, and the unaudited financial information of Special Billion for the period from its date of incorporation, i.e, 25 September 2015 to 30 September 2015.

Note 4: Other companies of the Target Group are incorporated or to be incorporated after 30 September 2015, therefore their financial information is not included.

There were no sales and purchases transaction between the Project Companies during the track record period.

Please refer to the financial information of the Project Companies set out in Appendix III to this circular for further information.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the film production and related business, film processing, rental of property and property development.

As mentioned in the annual report of the Company for the year ended 31 December 2014, the Group will continue to strive for business growth and seize opportunities in order to bring the largest returns for the Shareholders. The Board believes that the Acquisition presents an excellent opportunity for the Group to further expand and diversify its business portfolio.

Dongguan City is a major manufacturing hub in Guangdong Province, the PRC and is reputable for its manufacturing industries worldwide. In addition, Dongguan City has earned an important economic status and is the third largest export region in the PRC. For the year 2014, the gross domestic product of Dongguan City was approximately RMB588.1 billion, representing a growth rate of 7.8%. Total fixed assets investment was approximately RMB142.7 billion, representing a growth rate of 10.0%, which comprises RMB39.7 billion from industrial investments. Among the towns in Dongguan City, Changan Town and Humen Town are two of the most prosperous towns in Dongguan City and have established themselves as important manufacturing bases.

According to《關於推進我省工業園區和產業集聚區集中供熱的意見》(Opinion Relating to Promoting Centralized Heat Supply for the Industrial Parks and Zones in Guangdong Province*) published by the National Development and Reform Commission of the Guangdong Provincial government in December 2013, Guangdong Provincial government has been promoting the development of industrial parks and zones and the fast growth of centralized heat supply over the past few years. The government plans to further promote centralized heat supply and close down small scale furnaces gradually which is beneficial to the enhancement of energy efficiency and reduction of discharging air pollutants.

Furthermore, according to《東莞市2015年大氣污染防治實施方案》(2015 Air Pollution Prevention and Control Implementation Plan of Dongguan City*) published by 東莞市環境保護局 (Environmental Protection Bureau of Dongguan City*) in May 2015, it is the plan of the local government of Dongguan City that high polluting furnaces located within the area with centralised heat supply with steam capacity of 10 tonnes per hour or below shall be suspended by 1 January 2016 and be replaced by centralised heat supply. For areas that are not yet equipped with centralised heat supply infrastructure or not yet covered by the municipal natural gas transmission pipelines, enterprises in such areas can apply for the use of biomass gasification as a transitional alternative measure and have to use the centralised heat supply or natural gas once the centralised heat supply infrastructure or the natural gas transmission pipelines are constructed.

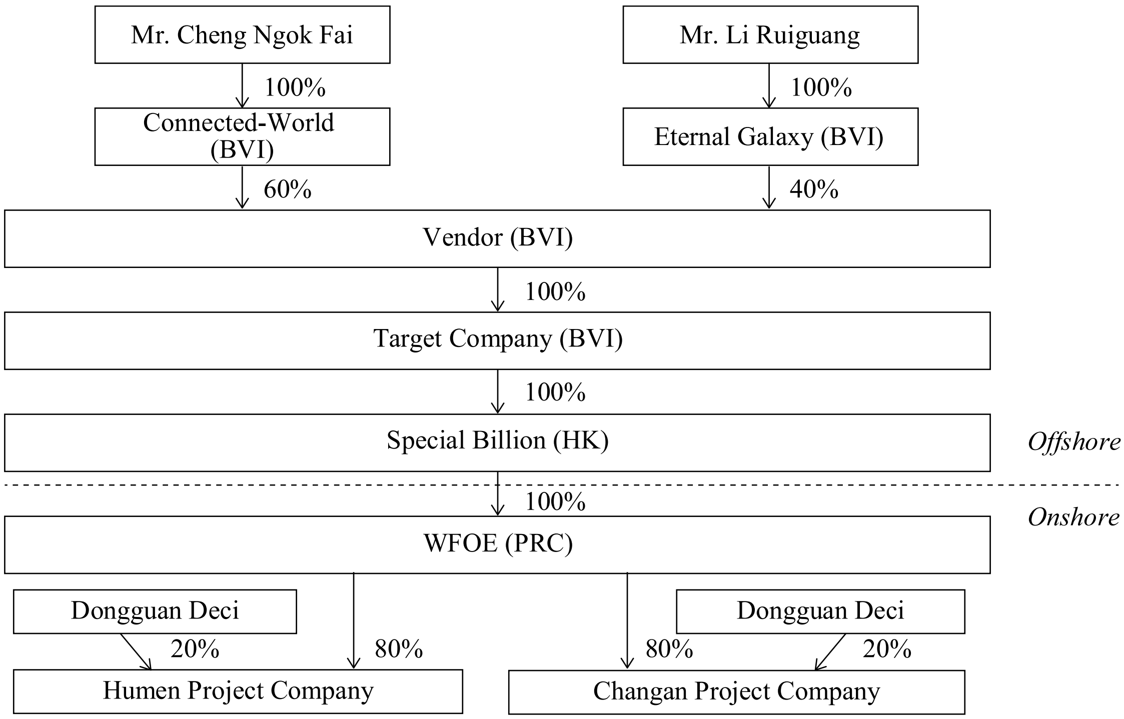
Given that Dongguan City is an industrial city, in light of the positive government policies regarding the environmental protection as mentioned above, the Directors consider that it is an appropriate timing to participate in the energy saving environmental protection projects in Dongguan City which have relatively lower credit risk and more stable expected return. In particular, in the current uncertain economic climate, the direct investment into such lower risks projects will be most proper way to utilise the funding of the Company which will in turn benefit the Company and the Shareholders as a whole.

Since the Project Companies are engaged in the energy saving environmental protection projects by construction of the steam transmission pipelines and distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in Humen Town and Changan Town respectively, the Directors believe that the Project Companies will benefit from the aforesaid government policy of Guangdong Province. Notwithstanding that the Acquisition will not turn the Target Group into subsidiaries of the Company, it provides with the Group appropriate avenue to explore the potential and growing market of the energy saving environmental protection and discover and evaluate the potential business opportunity in the industry. If suitable business opportunities arise in the future, the Group would also consider increasing its investment in the industry. Therefore, the Directors consider that the proposed acquisition of the Project Companies, which have obtained the relevant approvals and management team, would allow the Company to tap into the industry and enjoy the growth in the future.

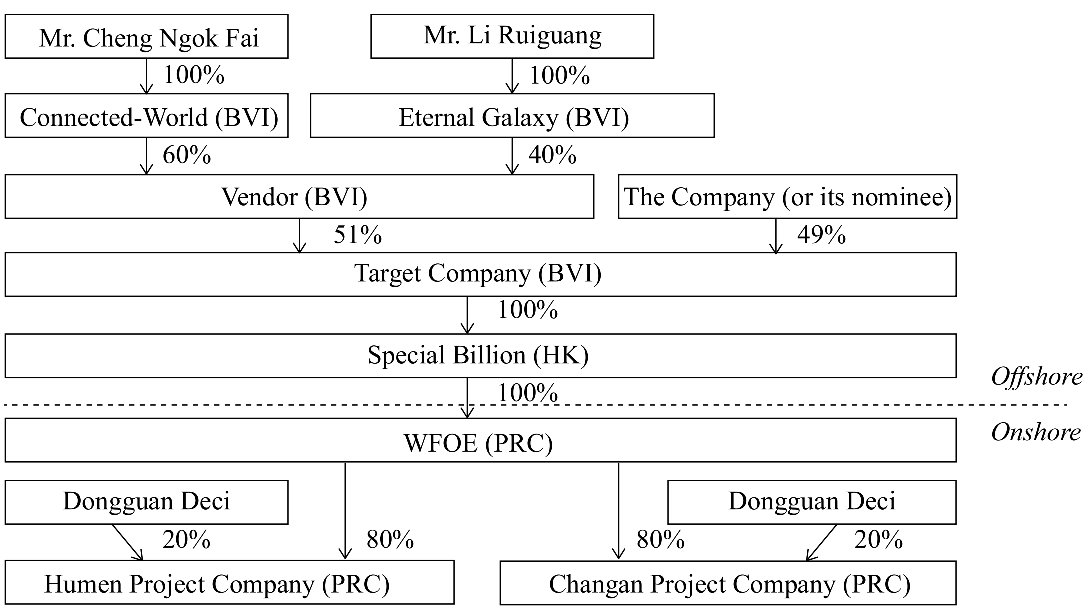
The Directors (including the independent non-executive Directors) believe that the terms of the Formal SP Agreement and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders taken as a whole.

None of the Directors has any material interest in the Formal SP Agreement or the transactions contemplated thereunder, as such none of them is required to abstain from voting on the Board resolutions in relation to the same matter.

The chart below illustrates the shareholding structure of the Target Group as at the Latest Practicable Date:



The chart below illustrates the shareholding structure of the Target Group after the Completion:



Dongguan Deci is a company with limited liability established on 8 January 2016 in Humen Town, Dongguan City, Guangdong Province, the PRC, and is principally engaged in asset investment and management. The ultimate beneficial owners of Dongguan Deci are Mr. He Yuexiong (何越雄), Mr. Zhang Shukun (張樹坤) and Mr. Zheng Jia'an (鄭家安).

Mr. He Yuexiong is a senior engineer and graduated with a Bachelor's Degree in Engineering from Northeastern Electric College (Changchun). He is familiar with and possesses professional knowledge about the operation of electric power plants and the development and the application of the cogeneration technology. Mr. He is currently the vice general manager of each of the Project Companies.

Mr. Zheng Jia'an has substantial experience in the management of corporation. From 1992 to 2008, he acted as general manager of a PRC trading company. From 2008 to 2015, he acted as director for various PRC companies in different industries, including investment, wine and trading.

Mr. Zhang Shukun used to work in a mechanic engineering company since 1965. Starting from 1978, he has been running a seafood company till now.

As confirmed by the Vendor, save for Mr. He Yuexiong who is one of the members of the management team of the Project Companies and Mr. Zheng Jia'an who is currently a supervisor of the Humen Project Company and the Changan Project Company and a director of the WFOE, none of the above beneficial owners has any relationship with the Vendor and its associates.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, none of the above beneficial owners has any relationship with the Company and its connected persons and Dongguan Deci is an Independent Third Party.

Upon the completion of the acquisition of 49% equity interest in the Target Company, the Target Company will become the associate of the Group. Investment in associate will be accounted for in the Group's financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill and test for impairment with the investment at the end of each reporting period.

RISK FACTORS

The Company sets out below the risk factors of the Group for the Shareholders' and prospective investors' attention. The Directors believe that there are certain risks involved in the Group's operations. They can be categorized into:

(i) risks relating to the Group; and

(ii) risks relating to the Project Companies.

Risks relating to the Group:

Adverse impact on the Group due to the recent downturn of the PRC economy

Recent downturn of the PRC economy may have an adverse impact on the business operations of the Group. Therefore, the operation results and the financial position of the Group may be materially and adversely affected if the economic downturn persists.

Difficulties in raising funds in the capital market

Such recent downturn in the global economy, and in particular, the PRC economy, has continuous, significant and adverse impact on the global capital market and may extend to the secondary market as for fund raising of already listed companies such as placings and rights issues. It is possible that the Company will face uncertainties and difficulties in obtaining the necessary financing and fundings for the capital requirements of the Group, which may have adverse impact on the business development of the Group.

Risks relating to the Project Companies:

Policy and regulation

It is the plan of the local government of Dongguan City that high polluting furnaces or boilers located within the area with centralised heat supply with steam capacity of 10 tonnes per hour or below shall be suspended by 1 January 2016 and be replaced by centralised heat supply. In the event of any further changes in the industry policies and regulations such as enforcement of certain controls and measures are all beyond the control of the Group and thus may render the current business strategies of the Group less effective than they should be. As at the Latest Practicable Date and to the best of knowledge, information and belief of the Company, the Project Companies are the first centralized heating supply companies in the Humen and Changan areas, nonetheless, there is no guarantee that the Group could continue to enjoy this position and could cope with future policies or regulatory changes and these changes may materially and adversely affect the business operations and profitability of the Project Companies.

Damages of pipelines or equipment

Some of the Project Companies' pipelines are situated outdoor, subject to climate changes and may be affected by natural disasters. If any pipelines were damaged or became worn out, which requires time for repair and maintenance, which may adversely affect the Project Companies' operation, productivity and profitability.

The Shareholders and the prospective investors shall be fully aware of the implications and impact of the risk factors hereinabove to the Acquisition.

LISTING RULES IMPLICATION

Pursuant to the Formal SP Agreement, as one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Acquisition is above 25% but below 100%, the Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The entire issued share capital of the Vendor is beneficially owned as to 60% by Mr. Cheng Ngok Fai, the brother of Mr. Cheng Keung Fai, a substantial Shareholder holding approximately 55.77% of the total issued share capital of the Company as at the Latest Practicable Date, therefore the Vendor and Mr. Cheng Ngok Fai are associates of Mr. Cheng Keung Fai and the connected persons of the Company under Chapter 14A of the Listing Rules. As such, the Formal SP Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders in relation to the Formal SP Agreement and the transactions contemplated thereunder. Titan Financial Services Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

INFORMATION ON THE VENDOR AND THE GUARANTORS

The Vendor is an investment holding company incorporated in the BVI with limited liability. The equity interest of the Vendor is held as to 60% by Connected-World and 40% by Eternal Galaxy, both are investment holding companies.

The ultimate sole beneficial owners of Connected-World and Eternal Galaxy are Mr. Cheng Ngok Fai and Mr. Li Ruiguang respectively. Mr. Cheng Ngok Fai is the brother of Mr. Cheng Keung Fai, a substantial Shareholder holding approximately 55.77% of the total issued share capital of the Company as the Latest Practicable Date and Mr. Li Ruiguang is an Independent Third Party.

THE SGM

The SGM will be convened for the Independent Shareholders and held at Room 4101, 41st Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 21 March 2016 at 10:30 a.m. at which ordinary resolution will be proposed for the purposes of considering and, if thought fit, approving, among other things, the Formal SP Agreement and the respective transactions contemplated thereunder, including the issue of the Convertible Notes and the allotment and issue of Conversion Shares under the Specific Mandate. To the best knowledge of the Directors, save for Mr. Cheng Keung Fai and the company controlled by him which together hold approximately 55.77% of the Company's equity interest as at the Latest Practicable Date, none of the Shareholders will be required to abstain from voting at the SGM in respect of the resolution(s) relating to the Formal SP Agreement and the transactions contemplated thereunder and the Specific Mandate.

A notice convening the SGM is set out in the section headed "Notice of the SGM" of this circular. Whether or not you are able to attend, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment thereof should you so wish.

The ordinary resolution to approve the Formal SP Agreement and the transactions contemplated thereunder, including the issue of the Convertible Notes and the Specific Mandate for the allotment and issue of the Conversion Shares at the SGM will be taken by poll and an announcement will be made by the Company after the SGM on the results of the SGM.

RECOMMENDATION

As at the Latest Practicable Date, none of the Directors has any material interests in the Acquisition. As such, none of the Directors was required to abstain from voting on the board resolutions approving the Acquisition.

The Board, having taken into account the advice of the Independent Board Committee and the Independent Financial Adviser, considers that the Formal SP Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, though are not in the Company's ordinary and usual course of business. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant resolution which will be proposed at the SGM for approving the Formal SP Agreement and the transactions contemplated thereunder including the issue of the Convertible Notes and the Specific Mandate for the allotment and issue of the Conversion Shares.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee; (ii) the letter from the Independent Financial Adviser; and (iii) the appendices to this circular.

Yours faithfully,
By Order of the Board
CHEUNG WO INTERNATIONAL HOLDINGS LIMITED
HUI WAI LEE, WILLY
Chairman

The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Formal SP Agreement and the transactions contemplated thereunder prepared for the purpose of incorporation in this circular.

CHEUNG WO INTERNATIONAL HOLDINGS LIMITED
長和國際實業集團有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 00009)

3 March 2016

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
SALE AND PURCHASE AGREEMENT IN RESPECT OF
ACQUISITION OF 49% OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING THE ISSUE OF CONVERTIBLE NOTES
AND NOTICE OF THE SGM**

We refer to the circular of Cheung Wo International Holdings Limited (the "**Company**") dated 3 March 2016 (the "**Circular**"), of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As the independent non-executive Directors who are independent of the parties to the Formal SP Agreement and the transactions contemplated thereunder, we have been appointed to form this Independent Board Committee to advise you as to whether, in our opinion, the terms of the Formal SP Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Shareholders as a whole are concerned.

Titan Financial Services Limited has been appointed as the Independent Financial Adviser to advise this Independent Board Committee and you on the fairness and reasonableness of the terms of the Formal SP Agreement and the transactions contemplated thereunder.

We wish to draw your attention to the letter from the Board, as set out in the section headed "Letter from the Board" of the Circular, and the letter of advice from the Independent Financial Adviser, as set out in the section headed "Letter from the Independent Financial Adviser" of the Circular, both of which provide details of the Formal SP Agreement and the transactions contemplated thereunder. Although the business

* *For identification purpose only*

activities of the Project Companies are not in the Company's ordinary and usual course of business, having considered the advice rendered by the Independent Financial Adviser and the principal factors and reasons taken into consideration by it in arriving its advice, we are of the opinion that the terms of the Formal SP Agreement and transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the SGM to approve the Formal SP Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the
Independent Board Committee of
Cheung Wo International Holdings Limited
Tsui Pui Hung **Tang Ping Sum** **Chiu Sin Nang, Kenny**
Independent non-executive Directors

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Titan Financial Services Limited in respect of the Formal SP Agreement and the transactions contemplated thereunder prepared for the purpose of inclusion in this circular.

Titan Financial Services Limited
Suites 3201-02, 32/F
COSCO Tower, Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

3 March 2016

To the Independent Board Committee
and the Independent Shareholders
of Cheung Wo International Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION
SALE AND PURCHASE AGREEMENT IN RESPECT OF
ACQUISITION OF 49% OF THE ENTIRE ISSUED SHARE CAPITAL
OF THE TARGET COMPANY
INVOLVING THE ISSUE OF CONVERTIBLE NOTES
UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Formal SP Agreement (and as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder, details of which are set out in the Letter from the Board (the "**Letter from the Board**") in the Company's circular dated 3 March 2016 (the "**Circular**") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 16 November 2015 (after trading hours), the Company, the Vendor and the Guarantors entered into the Formal SP Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Company has conditionally agreed to acquire the Sale Shares, representing 49% of the entire issued share capital of the Target Company at an aggregate consideration of HK$882,000,000. The Consideration will be satisfied as to (i) HK$60,000,000 in cash; and (ii) HK$822,000,000 by the issue of Convertible Notes in the same principal amount. On 17 February 2016 (after trading hours), the Company, the Vendor and the Guarantors entered into the Supplemental Agreement, pursuant to which the Vendor and the Company agreed, among other things, to extend the Long Stop Date from 17 February 2016 to 31 March 2016 (or such other date as may be agreed by the Vendor and the Company in writing) and amend the payment terms of the Consideration, pursuant to which the HK$60,000,000 cash payment shall be made within six months after the Completion Date by single or multiple payment(s), instead of on the Completion Date. Upon

Completion, the Target Company will become a 49% associate of the Company and the results and operations of the Target Company will be accounted for as an associate in the financial statement of the Group.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition is above 25% but below 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the relevant reporting, announcement, circular and Shareholders' approval requirements set out in Chapter 14 of the Listing Rules.

Given the entire issued share capital of the Vendor is beneficially owned as to 60% by Mr. Cheng Ngok Fai, the brother of Mr. Cheng Keung Fai, a substantial Shareholder holding approximately 55.77% of the total issued share capital of the Company as at the Latest Practicable Date, therefore the Vendor and Mr. Cheng Ngok Fai are associates of Mr. Cheng Keung Fai and the connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the Formal SP Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company and is subject to the relevant reporting, announcement, circular and Independent Shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to make recommendations to the Independent Shareholders regarding the Acquisition. Our role as the independent financial adviser is to provide independent opinion and recommendation to the Independent Board Committee and Independent Shareholders on whether the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms, and the entering into of the Formal SP Agreement is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties involved in the Acquisition, or their respective connected person(s), that could reasonably be regarded as hindrance to our independence to act as the Independent Financial Adviser. Accordingly, we are considered eligible to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Formal SP Agreement and the transactions contemplated thereunder. In addition to our appointment as the Independent Financial Adviser, we have not acted as the independent financial adviser in respect of any transactions of the Company in the past two years.

BASIS OF OUR OPINION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and/or the management of the Company (the "**Management**").

We have assumed that all information and representations provided by the Directors and/or the Management, for which they are solely and wholly responsible for are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquires and careful consideration by the Directors and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Directors and/or the Management nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group, the Target Group, and any of their subsidiaries or the prospects of the markets in which they respectively operate.

The Directors have collectively and individually accepted full responsibility for all information given with regard to the Company including particulars given in compliance with the Listing Rules. The Directors have confirmed, after having made all reasonable enquires, which to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

This letter was issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration in respect of the Acquisition.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration of the following principal factors and reasons. Our conclusions are based on the results of our analyses taken as a whole.

I. Background of and reasons for the Acquisition

(i) Information on the Group

a) Principal business of the Group

The Group is principally engaged in the film production and related business, film processing, rental of property and property development.

b) Financial information of the Group

Set out below is a summary of the consolidated financial results of the Group for (i) the two financial years ended 31 December 2013 and 2014 ("**FY2013**" and "**FY2014**", respectively) as extracted from the annual report of the Company for the year ended 31 December 2014 ("**AR2014**"); and (ii) the six months ended 30 June 2014 and 2015 ("**1H2014**" and "**1H2015**") as extracted from the interim report of the Company for the six months ended 30 June 2015 ("**IR2015**"):

Exhibit I: Consolidated financial results of the Group

	For the year ended 31 December		For the six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue:				
– Property rental	21,187	21,349	10,768	10,352
– Film distribution and licensing	3,235	2,257	898	454
– Film processing	2,379	3,521	1,992	626
Total revenue	*26,801*	*27,127*	*13,658*	*11,432*
Gross profit	19,139	21,078	10,564	8,753
Profit/(Loss) for the year/period attributable to the Shareholders	(65,576)	(178,032)	3,995	(30,155)

As set out in AR2014, the Group recorded revenue of approximately HK$27.1 million for the FY2014, representing a mild increase of approximately 1.2% as compared to the FY2013, with approximately (i) 78.7% of its total revenue derived from its property rental business; (ii) 8.3% of its total revenue derived from the film production and distribution business; and (iii) 13.0% of its total revenue derived from the film processing business, respectively. Revenue derived from the property rental segment remained stable at approximately HK$21.2 million for the FY2013 and approximately HK$21.3 million for the FY2014 as the sole rental property of the Group (being a five-storey shopping arcade in Chengdu, the PRC) is almost fully leased out which provides sustainable and steady income to the Group in the past two years.

On the other hand, the Group recorded a substantial increase in loss attributable to the Shareholders of approximately HK$112.5 million from net loss of approximately HK$65.6 million for the FY2013 to net loss of approximately HK$178.0 million for the FY2014, mainly attributable to the impairment of goodwill of approximately HK$198.0 million (the "**Impairment**") which was contributed to the Group's property development and hotel business in Xiangtan, Hunan Province, the PRC (the "**Hunan Project**").

According to IR2015, we note that the total revenue of the Group decreased by approximately 16.3% from approximately HK$13.7 million for the 1H2014 to approximately HK$11.4 million for the 1H2015, with (i) a slight decrease in the revenue derived from the property rental segment of approximately 3.9% from the 1H2014; (ii) the substantial decreases in the revenue derived from the film production and distribution segment and file processing segment of approximately 49.4% and 68.6% from the 1H2014, respectively, which was mainly due to no new film was released during the 1H2015. The Group recorded loss attributable to Shareholders of approximately HK$30.2 million for the 1H2015 as compared to profit attributable to Shareholders of approximately HK$4.0 million for the 1H2014, which was primarily resulted from (i) the recognition of part of the compensation income arising from the box-office takings and distribution of the movie "Monkey King" of approximately HK$14.1 million for the 1H2014 (1H2015: nil); (ii) the accrued finance costs of approximately HK$13.5 million in relation to 20% guaranteed secured notes which were issued in January 2015; and (iii) the enlarged operating loss sustained from the property and hotel development business for preparation of pre-sale of residential properties in Hunan Province.

Set out below is a summary of the consolidated financial positions of the Group as at 31 December 2013 and 2014 and 30 June 2015, as extracted from AR2014 and IR2015:

Exhibit II: Consolidated financial positions of the Group

	As at 31 December		**As at 30 June**
	2013	**2014**	**2015**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
	(audited)	(audited)	(unaudited)
Non-current assets	1,220,560	1,142,199	1,303,382
Current assets	1,282,068	1,532,980	1,504,229
Total assets	*2,502,628*	*2,675,179*	*2,807,611*
Current liabilities	430,126	717,572	411,369
Non-current liabilities	566,362	503,152	967,853
Total liabilities	*996,488*	*1,220,724*	*1,379,222*
Equity attributable to the Shareholders	1,506,140	1,454,455	1,428,389
Cash and cash equivalents	163,161	61,696	52,807

As at 30 June 2015, the Group had (i) total non-current assets of approximately HK$1,303.4 million, which mainly comprised property, plant and equipment of approximately HK$359.7 million, investment property of approximately HK$338.1 million and land use rights approximately HK$300.6 million; (ii) total current assets of approximately HK$1,504.2 million, which mainly comprised properties development in progress of approximately HK$1,120.7 million; (iii) total current liabilities of approximately HK$411.4 million, which mainly comprised trade and land payables of approximately HK$352.0 million; (iv) total non-current liabilities of approximately HK$967.9 million, which mainly comprised interest-bearing bank and other borrowings of approximately HK$713.0 million; and (v) equity attributable to the Shareholders of approximately HK$1,428.4 million.

We note that the Group recorded a high level of indebtedness, with its gearing ratio (calculated as a ratio of total interest-bearing bank and other borrowings and obligations under finance leases over total equity) increased from approximately 0.41 as at 31 December 2014 to approximately 0.51 as at 30 June 2015.

As discussed with the Management, we understood that, apart from the rental of property and property development businesses as well as the film production and related businesses that the Group are currently operating in, the Group has been actively seeking for other business opportunities so as to diversify the Group's business portfolio with growth potential and to broaden its source of income that can bring returns to the Shareholders. Given the prospects of the Target Group which will be discussed in the paragraph headed "I. Background of and reasons for the Acquisition – (ii) Information on the Target Group – c) Prospects of the Target Group" below, we concur with the view of the Directors that the Acquisition would present an opportunity for the Group to diversify its business portfolio which could generate stable source of revenue, and hence, improving its financial performance in the long run.

(ii) Information on the Target Group

a) Business of the Target Group

As stated in the Letter from the Board, the Target Company is an investment holding company incorporated in BVI on 8 October 2015. As at the Latest Practicable Date, the Target Company is wholly-owned by the Vendor and it currently owns the entire issued share capital of Special Billion, which is an investment holding company.

The Target Company will, through Special Billion, establish the WFOE for the purpose of acquisitions of equity interests in the Project Companies which will form the Target Group.

As at the Latest Practicable Date, the Existing Shareholders, who were Independent Third Parties, owned the entire issued share capital of each of the Project Companies. Both Project Companies are designed to engage in the energy saving environmental protection project by distribution of steam and heat produced by a power plant in Dongguan City to the industrial enterprises in certain areas in Humen Town and Changan Town respectively.

As part of our due diligence purposes, we have conducted a site visit to the Humen Project (as defined herein below) with the Management on 30 November 2015. During the site visit, we had various discussions with the Management and the management of the Target Group (the "**TG Management**") to understand the business model, operation status, scheduled timeline and financing approaches of the Project Companies.

Per our discussion, we understood that (i) the Project Companies will work closely with the state-owned construction companies entitled by the government which in turn will be responsible for the construction of the steam transmission pipelines connecting the power plant and the factories of the industrial enterprises; (ii) the Project Companies are expected to generate revenue based on usage of the total quantity of steam (in tonnes) by the industrial enterprises which will be measured by a steam flow equipment (meters) being installed at each of the factories for the purpose of measuring the steam consumption in tonnes, with its major costs of sales being the costs of purchasing steam and heat from one of the three nearby power plants located in Shajiao, Donguan City; (iii) each industrial enterprise is required to purchase a prepaid recharging cards issued by the Project Companies and fees for the relevant consumption will be deducted from the money prepaid and deposited by the customers in the recharging cards accordingly; (iv) the constructions of the steam transmission pipelines of the Humen Project (as defined herein below) and the Changan Project (as defined herein below) are expected to be fully completed by the end of 2016 and around December 2017, respectively; and (v) the total capital investment costs of the Project Companies of approximately RMB793 million is currently expected to be contributed as to approximately 30% by internal resources and approximately 70% by other financing means which included bank borrowings.

The Humen Project Company

The Humen Project Company is incorporated in the PRC with limited liability on 30 August 2013. As stated in the Letter from the Board, the Humen Project Company has obtained the approvals from the Dongguan Development & Reform Bureau to construct steam transmission pipelines of approximately 46,000 metres in Humen Town, with an annual production capacity of approximately 2,300,000 tonnes of steam (the "**Humen Project**"). As advised by the Management, the size and scale of the Humen Project mentioned is a planned schedule only and will be subject to further amendments upon granting approval from the relevant authorities.

Further to our site visit and upon our enquiries with the Management and the TG Management, we noted that (i) approximately 3,000 metres of steam transmission pipelines has been constructed as at 31 December 2015 with the construction of the remaining steam transmission pipelines to be fully completed by the end of 2016; (ii) the Humen Project Company has been commencing the distribution of steam and heat since end of December 2015; and (iii) as at the Latest Practicable Date, the Humen Project Company has signed (a) 2-years contracts with 9 industrial enterprises, which are principally engaged in, including but not limited to, textile manufacturing, green brick production, electronics components, food processing and paper manufacturing, with the unit price of steam of RMB219 per ton and the minimum guaranteed usage of steam ranging from 0.5 ton per hour to 5 tonnes per hour; and (b) 24 memoranda of understanding with more than 30 potential customers, with the volume of steam to be supplied ranging from 1 ton per hour to 13.5 tonnes per hour.

According to the Vendor, based on the current construction plan as at the Latest Practicable Date, the total investment costs of the Humen Project is estimated to be approximately RMB328.0 million, among which, (i) approximately RMB21.4 million was invested up to 31 December 2015; and (ii) approximately RMB306.6 million is expected to be invested in 2016.

The Changan Project Company

The Changan Project Company is incorporated in the PRC with limited liability on 22 July 2015. As stated in the Letter from the Board, the Changan Project Company has been registered with the Dongguan Development & Reform Bureau for construction of steam transmission pipelines of approximately 42,000 metres, with a annual production capacity of approximately 4,200,000 tonnes of steam (the "**Changan Project**"). According to the recent field survey, the expected length of the steam transmission pipelines to be constructed by the Changan Project Company may fall in between 42,000 metres and 58,000 metres (subject to the final approved length as shown on the construction work permit). As advised by the Management, the size and scale of the Humen Project mentioned is a planned schedule only and will be subject to further amendments upon granting approval from the relevant authorities.

Further to our discussion with the Management and TG Management, we noted that (i) the Changan Project Company is currently planning its construction works for the steam transmission pipelines in Changan Town and is expected to obtain the relevant construction work planning permit/approvals by April 2016; (ii) the Changan Project Company is expected to construct the steam transmission pipelines by May 2016 and complete the construction of the entire steam transmission pipelines by or around December 2017; (iii) commence the distribution of steam and heat by the third quarter of 2016; and (iv) as at the Latest Practicable Date, the Changan Project Company has signed 4 memoranda of understanding with 4 potential customers, with the volume of steam to be supplied ranging from 4 tonnes per hour to 50 tonnes per hour.

According to the Vendor, based on the current construction plan as at the Latest Practicable Date, the total investment costs of the Changan Project is estimated to be approximately RMB465.0 million, among which, (i) approximately RMB286.2 million is expected to be invested in 2016; and (ii) approximately RMB178.8 million is expected to be invested in 2017.

b) Financial information of the Target Group

Set out below is the audited financial information of the Target Group for the FY2013 and FY2014 and the nine months ended 30 September 2015:

Exhibit III: Financial information of the Target Group

	For the period ended 31 December 2013 *(Note 1)* *HK$* (audited)	For the year ended 31 December 2014 *(Note 2)* *HK$* (audited)	For the nine months ended 30 September 2015 *(Note 3)* *HK$* (audited)
Revenue	-	-	-
Loss before taxation	-	(946,000)	(1,501,000)
Loss and total comprehensive loss for the year/period	-	(946,000)	(1,501,000)

	As at 31 December 2013 *HK$* (audited)	2014 *HK$* (audited)	As at 30 September 2015 *HK$* (audited)
Total assets	125,000	20,000	3,441,000
Net assets/(liabilities)	125,000	(71,000)	(1,023,000)

Notes:

(1) The financial information consists of the audited financial information of the Humen Project Company for the period from its date of establishment, i.e. 30 August 2013 to 31 December 2013.

(2) The financial information consists of the audited financial information of the Humen Project Company for the year ended 31 December 2014.

(3) The financial information consists of the combined information of the audited financial information of the Humen Project Company for the nine months ended 30 September 2015, the audited financial information of the Changan Project Company for the period from its date of establishment, i.e. 22 July 2015 to 30 September 2015, and the unaudited financial information of Special Billion for the period from its date of incorporation, i.e. 25 September 2015 to 30 September 2015.

(4) Other companies of the Target Group are incorporated or to be incorporated after 30 September 2015, therefore their financial information is not included.

As depicted by the table above, the Target Group recorded loss and total comprehensive loss of approximately HK$946,000 for the FY2014 and HK$1,501,000 for the nine months ended 30 September 2015 which was primarily attributable to (i) no revenue was recorded as the Target Group did not commence nor conduct any business during the period; and (ii) administrative expenses principally comprised of management remuneration, corporate transportation costs, travel reimbursement and other operating overheads was recorded during the period.

The Target Group recorded net assets of approximately HK$125,000 as at 31 December 2013 and net liabilities of approximately HK$71,000 and HK$1,023,000 as at 31 December 2014 and 30 September 2015, respectively. The net liabilities recorded as at 30 September 2015 was due to the fact that the Target Group has not commenced its business as at 30 September 2015.

We understood that the Target Company will become a 49% associate of the Company and the results and operations of the Target Company will be accounted for as an associate in the financial statement of the Group upon Completion. In this regard, we have discussed with the Directors and were given the understanding that, notwithstanding the Directors share a positive view on the business operation and prospects of the Target Group, given the Project Companies have no track record and the operation of the Target Group is still at the initial stage, the Directors have decided to adopt a conservative approach to acquire only 49% of the total issued share capital of the Target Group at the current stage as they expect additional time and efforts are needed to develop this energy saving environmental protection project and evaluate the potential business opportunities in this industry, before committing substantial investments and are of the view that the Acquisition provides with the Group appropriate avenue to explore the potential and growing market of the energy saving environmental protection and discover and evaluate the potential business opportunity in the industry. In addition, having considered that the Group does not have any capital commitment on the Completion Date, but are allowed to settle the cash payment within six months after the Completion Date and such amount could be paid by one single payment or multiple payment(s) and approximately 93.2% of the Consideration will be settle by way of the issue of the Convertible Notes, the Acquisition allows the Group to enjoy potential returns from the Target Group while lowering the risk exposure to its investment in the Target Group through acquiring a minority stake without immediate substantial cash outflow from the Company and maintaining the financial flexibility of the Group, as well as strengthening the financial position of the Group given the capital base of the Company would be enlarged upon the conversion of the Convertible Notes and the allotment and issue of the Conversion Shares. Further, the Group may also consider and negotiate for future possible acquisition of further equity interests in the Target Company should the Company be satisfied with the performance and growth potential of the Target Group after the Acquisition. Therefore, the Directors consider that the Acquisition would allow the Company to tap into the energy saving environmental protection industry and enjoy the potential positive growth resulted from the favourable regulatory policies in the future.

c) Prospects of the Target Group

As discussed with the Management, the future principal business of the Target Group will be the operation of the energy saving environmental protection project by distribution of steam and heat produced by a nearby power plant in Dongguan City to the industrial customers in certain areas in Humen Town and Changan Town of the Dongguan City through its operation of the Project Companies.

Analysis on Dongguan City

As set out in the Letter from the Board, Dongguan City is a major manufacturing hub in Guangdong Province, the PRC and is reputable for its manufacturing industries worldwide. Among the towns in Dongguan City, Changan Town and Humen Town are two of the most prosperous towns in Dongguan City and have established themselves as important manufacturing bases.

According to 東莞市統計局 (Statistics Bureau of Dongguan City*), the gross domestic product ("**GDP**") of Dongguan City in 2014 was approximately RMB588.1 billion, representing a growth rate of approximately 7.8% as compared with 2013, and such growth has outpaced the national GDP by approximately 0.4%; while the GDP of Dongguan City in 2015 was approximately RMB627.5 billion, indicating an increase of approximately 8.0% from 2014. Industrial added value of above-scale enterprises in 2014 amounted to approximately RMB259.4 billion, representing an increase by approximately 8.8% as compared to 2013; while the industrial added value of above-scale enterprises was approximately RMB271.1 billion in 2015, indicating an increase of approximately 5.3% from 2014. The total fixed asset investment in Dongguan City in 2014 was approximately RMB142.7 billion, representing a growth rate of approximately 10.0% than that of 2013, which comprises of approximately RMB39.7 billion generated from industrial investments; while the total fixed asset investment in Dongguan City was approximately RMB144.7 billion, representing an increase of approximately 3.3% than the corresponding period in 2014 with approximately RMB50.3 billion derived from industrial investments, indicating a growth rate of approximately 26.6%.

Having taken into account the growth in the economy of Dongguan City and its industrial development which would in turn encourage the growth in the energy consumption within Dongguan City, we consider that this would provide a chance for the Group to seize business opportunities for acquiring the Project Companies which are designed to be principally engaging in the energy saving environmental protection projects by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in certain areas in Humen Town and Changan Town.

Support from the provincial government for centralised heat supply

As set out in the Letter from the Board, according to《關於推進我省工業園區和產業集聚區集中供熱的意見》(the "Opinion Relating to Promoting Centralised Heat Supply for the Industrial Parks and Zones in Guangdong Province"*) published by the

National Development and Reform Commission of the Guangdong Provincial government in December 2013, Guangdong provincial government has been promoting the development of industrial parks and zones and the fast growth of centralised heat supply over the past few years. The government plans to further promote centralised heat supply and close down small-scale furnaces gradually which is beneficial to the enhancement of energy efficiency and reduction of discharging air pollutants.

Furthermore, according to《東莞市2015年大氣污染防治實施方案》(the "2015 Air Pollution Prevention and Control Implementation Plan of Dongguan City"*) published by 東莞市環境保護局 (Environmental Protection Bureau of Dongguan City*) in May 2015, the local government of Dongguan City has mandatory policies requesting high polluting furnaces located within the area with centralised heat supply with steam capacity of 10 tonnes per hour or below shall be suspended by 1 January 2016 and be replaced by centralised heat supply. For areas that are not yet equipped with centralised heat supply infrastructure or not yet covered by the municipal natural gas transmission pipelines, enterprises in such areas can apply for the use of biomass gasification as a transitional alternative measure and have to use the centralised heat supply or natural gas once the centralised heat supply infrastructure or the natural gas transmission pipelines are constructed. In addition, according to《廣東省鍋爐污染整治實施方案（2015年-2018年）》(the "Guangdong Province Boiler Pollution Remediation Plan (2015-2018)"*) promulgated by the Guangdong provincial government in August 2015, the Guangdong provincial government aims to promote and encourage the central heating cogeneration and small coal-fired boiler replacement policy.

As advised by the Management and the TG Management, to the best of their knowledge, information and belief, the Project Companies are the first centralised heating supply companies in the Humen and Changan areas. In view of (i) the favourable government policies regarding the environmental protection as mentioned above; (ii) the Project Companies are likely to enjoy the first-mover advantages by providing heat ad steam produced by a nearby power plant in Dongguan City to industrial enterprises in Humen Town and Changan Town, with the steam transmission pipelines being fully constructed by the Project Companies in certain areas in Humen Town and Changan Town by the end of 2016 and around December 2017, respectively, we concur with the view of the Directors that the distribution of steam and heat industry in Dongguan City has a positive growth prospect and the Target Group is likely to be beneficial from this favourable government policies by seizing business opportunities arising from the change of use of high polluting small coal-fired boilers to centralised heat supply or natural gas in the regions and thereby allowing the Group to tap into this the energy saving environmental protection projects in Dongguan City which have relatively lower credit risk and provide more sustainable and further income to the Group going forward. Having taken into consideration of the supportive regulatory policies published by the Guangdong provincial government and the local government of Dongguan City, including but not limited to the promotion of centralised heat supply for low-polluting energy and the compulsory closure of the high polluting furnaces in Dongguan City, we consider that the overall development of the industry and the location that the Project Companies are principally engaged in is positive on the long term prospect.

d) Management team of the Target Group

We were advised by the Management that the existing management team of the Project Companies has substantial experience with an average of over 6 years of experience in the project execution and/or enterprise management, which would be able to enhance the Target Group's execution capabilities and contribute to the success of the Target Group.

Despite the change of control of the Target Group, having considered that (i) the Company intends to retain the existing management team of the Project Companies to oversee the day-to-day operation and management of the Project Companies after Completion; (ii) the Company will appoint Mr. Li Wenjun (the executive Director) who has experience in heat supply and Mr. Lam Kwong Shu (the chief operating office of the Company) who has experience in project investment and management to be the board of directors of the WFOE to oversee the business operation of the Project Companies; and (iii) the Company will identify suitable candidates with the relevant management expertise and industry experience to manage the operation of the Project Companies in the future when necessary, we concur with the view of the Directors that the Target Group will have sufficient management expertise to oversee and operate the business of the Project Companies in the future and the change in ownership of the Target Group will have minimal effect on the business operation and performance of the Project Companies after Completion.

Taking into consideration of (i) the recent financial performance of the Group which necessitates its needs for business opportunities that will bring stable return to the Shareholders in the long run; (ii) the business and prospects of the Target Group benefiting from the policies of the local government as analysed above; (iii) the Target Group has an experienced management team to oversee the day-to-day operation and business of the Project Companies and the Group will identify suitable candidates to manage the operation of the Project Companies when necessary; and (iv) the Acquisition provides the Group with avenue to explore the potential and growing market of the energy saving protection and discover and evaluate the potential business opportunity in the industry, given that the operation of the Target Group is still at the initial stage which the Management expects that additional time and effort are needed to develop and evaluate this energy saving environmental protection, before committing substantial investments, we are of the view that the Acquisition, though not in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole.

II. Principal terms of the Formal SP Agreement

(i) Basis of the Consideration

As set out in the Letter from the Board, the Consideration payable by the Company shall be HK$882,000,000, which will be satisfied as to (i) HK$60,000,000 in cash within six months after the Completion Date by one single or multiple payment(s); and (ii) HK$822,000,000 by the issue of Convertible Notes in the same principal amount to the Vendor or its nominee(s) on the Completion Date.

The Consideration was determined after arm's length negotiations between the Company and the Vendor taking into consideration, among others, the valuation of the business of the Target Group as conducted by an independent qualified valuer and the reasons and benefits of the Acquisition as set out under the paragraph headed "Reasons for and benefits of the Acquisition" in the Letter from the Board. The valuation on the business of the Target Group is conducted by HASS Natural Resources Limited ("**HASS**"), an Independent Third Party, with the full text of the valuation report (the "**Valuation Report**") set out in Appendix VI to the Circular.

As stated in the Letter from the Board, the actual cost that has incurred by the WFOE for acquisition of the Project Companies as advised by the Vendor is approximately RMB28,000,000, which is determined on arm's length basis with reference to the total registered capital of the Project Companies and 80% equity interests respectively owned by the WFOE. The Consideration therefore represents a substantial difference of the consideration paid by the WFOE in acquiring 80% of the Project Companies. Nonetheless, having taking into account of: (a) the valuation conducted by an independent qualified valuer on the business of the Target Group, which amounted to approximately HK$2,461 million (or equivalent to approximately HK$965 million to the effective interests to be held by the Company), representing a discount of approximately 8.6% to the effective interests of the valuation; (b) the Profit Guarantee provided by Warrantors for the three years ending 31 December 2018 as detailed below under the paragraph headed "Profit Guarantee" in the Letter from the Board; (c) the reasons and benefits of the Acquisition as detailed under the paragraph headed "Reasons for and benefits of the Acquisition" in the Letter from the Board; (d) the prospects of the Project Companies as detailed under the paragraph headed "Prospects of the Project Companies" in Appendix IV to this Circular; and (e) the future income stream and benefits forgone by the Vendor under the Acquisition, the Directors consider that the Consideration, though is substantially higher than the consideration paid by the WFOE in acquiring the Project Companies, is determined on arm's length basis and is fair and reasonable.

a) Valuation

As stated in the Valuation Report, the value of the environmental thermoelectric projects in Dongguan held by the Target Group as at 31 December 2015 was approximately HK$2,461 million (the "**Valuation**"), equivalent to approximately HK$965 million to the effective interests held by the Company. Accordingly, the Consideration represents a discount of approximately 8.6% to the effective interests to be held by the Company as appraised by HASS as at 31 December 2015.

In order to ascertain the fairness and reasonableness of the Consideration which is by reference to the fair value of the business of the Project Target from the Valuation Report appraised by HASS, we have performed the following works done:

Experience of HASS and their engagement

We have interviewed HASS regarding its experience and understand that HASS is an consultancy firm which provides consulting services and issues valuation report focusing on the earth resource and energy industries and have relevant experience in conducting business valuations and consultation services such as technical review and feasibility study related to natural resources and commodities for companies listed on the Stock Exchange. We also understand that the person-in-charge for the Valuation has over 20 years' experience in undertaking valuation of geotechnical and mine engineering works in Canada, Hong Kong and China. We have also obtained HASS's engagement letter and noted that the scope is to prepare a valuation report and provide the Company with the opinion of fair value on the Project Companies. Based on the aforesaid engagement letter and our discussion with HASS in relation to their terms of engagement, in particular, their scope of work, we noted that there is no limitation on the scope of work which might adversely impact on the degree of assurance given by them in their report. Based on our discussions with HASS and the Management, we understand that, to the best of their knowledge, apart from independent valuation engagements, they have no other current or prior relationships with the Company, the parties to the Acquisition, and core connected persons of either the Company or the Vendor and is independent to the Group, the Target Group and the Vendor.

Valuation methodology

As set out in the Valuation Report and also based on our discussions with HASS, in arriving at their opinion of the Valuation, we understand that HASS has considered three generally accepted valuation approaches, namely (i) market approach; (ii) cost approach; and (iii) income approach, in arriving at the Valuation. HASS considered the market and cost approach are not appropriate approach for the valuation of the market value of the Project Companies given that (i) the limited operating history of the Project Companies and companies in similar business may not be directly comparable in terms of their development stage, therefore, the market approach is not appropriate to evaluate the market value of the Project Companies; and (ii) the cost approach is more common in valuing tangible assets while the Project Companies are businesses with potential earning power and thus the adoption of cost approach would not properly reflect the earning capabilities of the Project Companies. In this regard, given the availability of the relevant forecast information, HASS considers that the income approach is the most appropriate valuation approach for determining the market value of the Project Companies. Having considered the characteristics and business nature of the Project Companies, we concur with HASS's view that the income approach is the most appropriate valuation approach for the Valuation.

Key assumptions

We note that HASS has made various key and general assumptions for the valuations of the market value of the Project Companies, details of which are set out the paragraph headed "The Formal SP Agreement – Consideration" in the Letter from the Board and in Appendix VI to the Circular. We have also discussed with the Company and HASS and reviewed on the key bases and assumptions made and nothing has come to our attention that would lead us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Report. Accordingly, we are of the view that the principal bases and assumptions adopted in the Valuation Report are fair and reasonable.

Discount rate

We understand that HASS has adopted the weighted average cost of capital ("**WACC**") as the discount rate to discount the cash flow of the Project Companies. WACC is calculated by reference to average rate of the amount of (i) the proportion of the cost of equity of the Target Company derived by the capital asset pricing model ("**CAPM**") and (ii) the after-tax interest rate of the borrowings of the Target Company as the cost of debt of the Target Company, and was calculated as approximately 18.0% during the period from 2015 to 2020 (the "**Valuation Period**").

As discussed with HASS, having considered that the adoption of WACC as the discount rate rather than only using cost of equity to value a company with high debt level can eliminate the consideration of cash flows relating to debt where the leverage is expected to be changed significantly over the Valuation Period, we concur with HASS that it is appropriate to use the WACC as the discount rate to discount the projected cash flow of the Project Company during the Valuation Period. In addition, in arriving at the discount rate, HASS has also taken into account a number of factors, including risk free rate, market return, company specific risk. Moreover, in view of the fact that the Target Group is a private company in nature and lack of marketability, HASS has applied a discount rate of approximately 15.5% to the Valuation based on their analysis and research study.

Given that the Valuation involves the use of discount cash flow method ("**DCF**"), it is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The Directors have confirmed that they have reviewed and discussed with HASS the bases and assumptions upon which the Valuation Report has been made. We understood that the Company has engaged RSM Hong Kong, the reporting accountants of the Company, to review its discounted estimated future cash flows (the "**Profit Forecast**") and is of the opinion that, the Profit Forecast, so far as the calculations are concerned, has been properly complied, in all material respects, in accordance with the assumptions made by the Directors. Also, Kingston Corporate Finance Limited, the financial adviser to the Company in connection with the Acquisition, is also the Profit Forecast has been made after due and careful enquiry by the Directors. Letters from RSM Hong Kong and Kingston Corporate Finance Limited relating to the Valuation Report are set out in Appendix VII and VIII to the Circular, respectively.

The Directors also confirmed that the Profit Forecast has been prepared after due and careful enquiry by reference to, among others, the expected future prospects of the steam and heat industry in Dongguan City and the continuation of its competitive advantages and other factors considered relevant. However, Independent Shareholders should note that the Valuation Report relies substantially on the Profit Forecast and the successful achievement of the business performance and financial results of the Project Companies, which may be affected by a number of factors, including the availability of sufficient funds, government policies relevant for the industry, the economic conditions, the ability of the Target Group to maintain its existing competitive advantages and the threat of substitutes and new market entrants. There is no assurance that the business plan can be successfully implemented. Should there be any material adverse changes in the operating environment of the Target Group which result in its failure to implement any part of our business plan, the prospects of the Target Group may be adversely affected.

After reviewing and discussing with HASS on the methodologies, bases and assumptions as well as the approaches adopted by HASS, having considered that (i) the income approach is an appropriate approach to be used for the Valuation, details of which was explained in the paragraph headed "Valuation methodology" above; (ii) the principal bases and assumptions adopted in the Valuation Report are fair and reasonable, details of which was explained in the paragraph headed "Key assumptions" above; and (iii) the discount rate by way of WACC adopted in discounting the projected cash flow is appropriate, details of which was explained in the paragraph headed "Discount rate" above, we consider that the Valuation is fair and reasonable so far as the Shareholders are concerned.

Save for the above, in order to further assess the fairness and reasonableness of the Consideration, we have also considered two of the most widely used and accepted valuation approaches, including price-to-earnings ratio ("**P/E Ratio**") and price-to-book ratio ("**P/B Ratio**"). However, given the loss-making position and net liabilities position of the Target Group for the financial year ended 31 December 2014 and the nine months ended 30 September 2015, we consider that both P/E Ratio and P/B Ratio are not applicable. We have also attempted to assess the fairness and reasonableness of the consideration for the Consideration using the dividend yield ratio, however, we consider that divided yield ratio is not applicable given that the Target Group did not declare any divided for the financial year ended 31 December 2014 and the nine months ended 30 September 2015. In this regard, we consider that the Valuation Report provides a general reference to assess the fairness and reasonableness of the Consideration.

(ii) Conditions Precedent

Completion is conditional upon the fulfillment of various conditions precedent, including without limitation:

a) the Company having completed and being satisfied with the results from its due diligence review and investigations over the financial, legal, business, operational and other matters of the Target Group, and there being no material change adverse to the financial, legal, business, operational and other matters of the Target Group up to the Completion Date;

b) acquisition of 80% equity interests in each of the Project Companies by the WFOE having been completed, i.e. the Reorganisation, and all registration and filing procedures necessary to be done in the PRC having also been completed;

c) the Company having obtained the opinion of its PRC legal advisor to the satisfaction of the Company and in compliance with the requirements of the Stock Exchange, including, among other things, the due diligence reports of the WFOE and the Project Companies;

d) the structure of the Target Group (as shown in the Letter from the Board which illustrates the shareholding structure of the Target Group immediately before the Completion) having been established;

e) the Vendor and the Company having obtained all requisite internal and external approval(s), consent(s), licence(s), permit(s), authorisation(s), waiver(s) and/or exemption(s) in respect of the transactions contemplated under the Formal SP Agreement, including any approval and consent from regulatory authority(ies) (if applicable);

f) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of and permission to deal in the Conversion Shares;

g) the Independent Shareholders having passed resolutions at an extraordinary general meeting approving, among other things, the Formal SP Agreement and the transactions contemplated thereunder and the issue of Convertible Notes and the Conversion Shares in accordance with the Listing Rules; and

h) the Company having complied with the relevant requirements in the Listing Rules and/or the Takeovers Code in relation to the Acquisition, the issue of Convertible Notes and Conversion Shares and other transactions contemplated under the Formal SP Agreement, and having satisfied the Stock Exchange and the SFC accordingly.

If the above conditions precedent cannot be fulfilled or waived entirely or partly by the Company in writing (except (b), (e) to (h) which cannot be waived) before 5:00 p.m. on the Long Stop Date (or such other date as agreed by parties to the Formal SP Agreement in writing), the Formal SP Agreement shall terminate and whereupon no party shall be liable to any of the other parties, save for in respect of claim(s) arising out of any antecedent breach(es) thereof.

As at the Latest Practicable Date, save for the conditions precedent (b) and (d) above, none of the above conditions precedent has been fulfilled and/or waived. As confirmed by the Directors, the Company has no intention to waive any conditions and there is no such circumstance under which the Company will waive any conditions.

(iii) Profit Guarantee

Pursuant to the terms of the Formal SP Agreement, the Warrantors, jointly and severally, unconditionally and irrevocably guarantee to the Company that the Target Net Profit for the relevant year shall not be less than the following amounts (the "**Profit Guarantee**"):

Relevant Year	**Guaranteed consolidated audited profit after tax**
1 January 2016 to 31 December 2016	HK$24,500,000
1 January 2017 to 31 December 2017	HK$53,900,000
1 January 2018 to 31 December 2018	HK$112,700,000

If the Target Net Profit for any of the three relevant years falls below the above guaranteed amount for the relevant year, the Vendor shall on 31 May after the end of the relevant year pay to the Company, an amount equal to the difference between the guaranteed consolidated audited profits after tax for the relevant year and the Target Net Profit for the same year. In the event that the Target Net Profit is a negative figure (i.e. the Target Group makes loss), for calculation of the difference, the Target Net Profit shall be deemed to be zero.

If the Vendor fails to pay to the Company the Amount in Difference on or before 31 May after the end of each relevant year, the Company shall be entitled to either (i) set-off the Amount in Difference by cancelling the same principal amount of Convertible Notes from those held in escrow for the relevant year. The Company shall return to the Vendor the remaining Convertible Notes held in escrow for the relevant year within 5 Business Days after such cancellation; or (ii) if the Convertible Notes have been converted into Conversion Shares, the Vendor shall irrevocably authorise the Company to sell part of or all of the Conversion Shares at the then market trading price on the Stock Exchange for payment of the Amount in Difference; and the Vendor shall pay the difference between the proceeds of the sold Conversion Shares and the Amount in Difference in cash. If the Target Net Profit for each of the three years achieves the above guaranteed amount for the relevant year, the Company shall return the Convertible Notes held in escrow, amounting to the relevant amount, to the Vendor on 31 May after the end of the relevant year.

As stated in the Letter from the Board, in arriving at the Profit Guarantee, the Directors have taken into account (i) the future prospects of the Project Companies as detailed under the paragraph headed "Reasons for and benefits of the Acquisition" in the Letter from the Board and the paragraph headed "3. Prospects of the Project Companies" in Appendix IV to this Circular; (ii) the potential business performance, including contracts and/or memoranda of understanding signed and lists of existing and potential customers of the Project Companies (as at the Latest Practicable Date, the Humen Project Company has entered into 9 contracts (of which the term of the contract is 2 years, the unit price for the steam is RMB219 per ton and the minimum guaranteed usage of steam, where specified in the contracts, is between 0.5 ton per hour and 5 tonnes per hour) and 24 memoranda of understanding (of which the volume of the steam to be supplied is between 1 tone per hour and 13.5 tonnes per hour, the temperature of the steam is between 150°C and 200°C and the pressure of steam is between 0.5 MPa to 0.9 MPa) with more than 30 customers/potential customers and the Changan Project Company has entered into 4 memoranda of understanding (of which the volume of steam to be supplied is between 4 tonnes per hour and 50 tonnes per hour, the temperature of the steam is 180° C and the pressure of the steam is between 0.7 MPa and 0.8 MPa) with 4 potential customers); and (iii) the sales target for the three years ending 31 December 2018 estimated by the Vendor at the time of Acquisition. On this basis, the Directors are of the view that, notwithstanding the Company is investing in the Project Companies that have no track record, in view of the mandatory policy implemented by the local government of Dongguan City to close down high polluting coal-fired boilers, the Directors are of the view it is necessary for the factories to look for alternatives for heat and steam supply for their production and the Company is therefore confident to the future prospects of the Target Group. The Directors are of the view that the Profit Guarantee were arrived at after arm's length negotiations between the parties of the Acquisition, having considered the above factors, and are fair and reasonable and in the interests of the Company and Shareholders as a whole.

Further to our discussion with the Directors, we were given the understanding that the Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to the Valuation Report and the Directors are of the view that the Profit Guarantee (which (i) is in essence a dollar-to-dollar guarantee of approximately HK$191.1 million by the Vendor for a term of three financing years ending 31 December 2018, being equivalent to approximately 21.7% of the Consideration; and (ii) provides the mechanism for adjustment to the Consideration in the event that the Target Group fails to perform as anticipated) indeed serves an extra safeguard and additional assurance from the Vendor to the Company in relation to the performance and financial results of the Target Group for the three years ending 31 December 2018.

In light of (i) the business and prospects of the Target Group benefiting from the policies of the local government as illustrated in the paragraph headed "(ii) Information on the Target Group" above; (ii) the Acquisition provides the Group with avenue to explore the potential and growing market of the energy saving protection and discover and evaluate the potential business opportunity in the industry, given that the operation of the Target Group is still at the initial stage which the Management expects that additional time and efforts are needed to develop and evaluate this energy saving environmental protection project, before committing substantial investments; (iii) the compensation from the Vendor to the Company against the Amount in Difference will be on a dollar-to-dollar basis, being equivalent to approximately 21.7% of the Consideration; (iv) part of the Convertible Notes amounting to the principal amount of HK$191,100,000 which is equivalent to the aggregate Profit Guarantee will be held under escrow (or as pledge if such Convertible Notes are converted into Conversion Shares) and provide incentives to the Project Companies to generate more revenue, both of which serve an extra safeguard and additional assurance to the Company in relation to the performance and financial results of the Target Group for the three financial years ending 31 December 2018, we are of the opinion that the above Profit Guarantee arrangements in place are fair and reasonable to each of the parties involved, and safeguard the interest of the Company and its Shareholders.

III. Convertible Notes

(i) Principal terms of the Convertible Notes

Please refer to the paragraph headed "Convertible Notes" in the Letter from the Board for the detailed terms of the Convertible Notes.

(ii) Conversion Price

The initial Conversion Price of HK$0.80 per Conversion Share represents:

(i) a discount of approximately 46.31% to the closing price of HK$1.49 per Share on 16 November 2015, the date of the Formal SP Agreement;

(ii) a discount of approximately 44.06% to the average closing price of approximately HK$1.43 per Share as quoted on the Stock Exchange for the 5 trading days immediate prior to the date of the Formal SP Agreement;

(iii) a discount of approximately 24.53% to the closing price of HK$1.06 per Share as at the Latest Practicable Date; and

(iv) a discount of approximately 15.79% to the unaudited net asset value per Share of approximately HK$0.95 as at 30 June 2015.

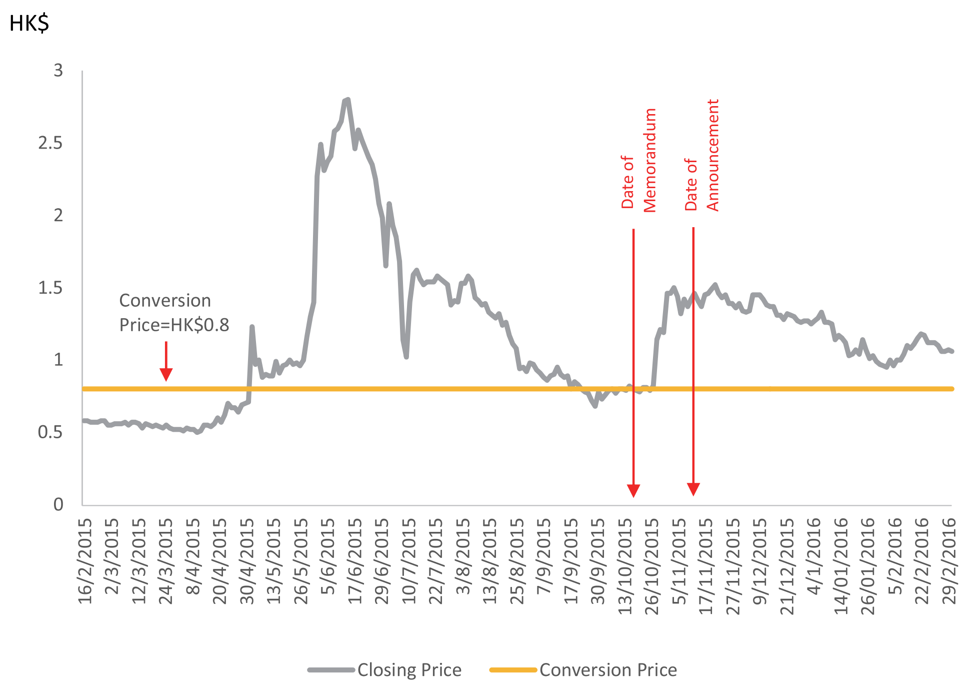
As stated in the Letter from the Board, the initial Conversion Price was determined after arm's length negotiation between the Vendor and the Company with reference to the historical closing prices of the Shares, which represents approximately: (a) the average 5-day closing price of the Shares before the date of the Memorandum of approximately HK$0.796 per Share; (b) the average 5-day closing price of the Shares up to and including the date of the Memorandum of approximately HK$0.802 per Share; and (c) the average 10-day closing price of the Shares up to and including the date of the Memorandum of approximately HK$0.801 per Share. Based on the aforesaid, the Directors noted that the Conversion Price represents a relatively large discount to the average closing prices of Shares before the date of the Formal SP Agreement, the Directors consider that the Conversion Price is determined on normal commercial terms and is fair and reasonable.

For the purpose of assessing of the fairness and reasonableness of the Conversion Price, we have conducted the following analysis:

a) Historical Share price performance

The following chart set out the closing price of the Shares as quoted on the Stock Exchange during the period commencing from (i) 16 February 2015 (being the first trading day of the nine-month period) up to and including 15 November 2015 (being the Last Trading Day) (the "**Pre-Announcement Period**"), and (ii) from 16 November 2015 (being the date of the Announcement) to the Latest Practicable Date (the "**Post-Announcement Period**") (from 18 May 2015 and up to the Latest Practicable Date) (collectively, as the "**Review Period**"):

Exhibit IV: Historical Share price performance



Source: the website of the Stock Exchange (http://www.hkex.com.hk)

Since the beginning of Pre-Announcement Period until 30 April 2015, the closing price of the Shares had been trading at the range of HK$0.50 per Share to $0.71 per Share (the "**Beginning Period**") with the average closing price of approximately $0.57 per Share. The Conversion Price represents a premium of approximately 40.35% over the average closing Share price of the Beginning Period. On 4 May 2015, the closing price of the Shares surged significantly and reached HK$1.23 per Share. On the same day, the Company issued an announcement that the Board was not aware of any reasons for its unusual movement in Share price. It was later noted that there were rumors reporting that there would be a change in control of the Company and therefore, on 5 May 2015, the Company subsequently made another announcement to clarify that there had been no change of control in the Company. Nonetheless, the Share price continued to surge, possibly due to the market continued speculation on a possible change of control of the Company and the Share price reached its peak at HK$2.80 per Share on 12 June 2015. However, since then, the Share price did not sustain and had been dropping gradually and reached the lowest at HK$0.68 per Share on 24 September 2015, the Directors confirmed that they were not aware of any specific events of the Company that caused the said decrease in the Share prices. We noted that the Share price during 4 May 2015 to 24 September 2015 (the "**Unusual Period**") have generally pulled up the average closing price of the Share during the Review Period. During the Pre-Announcement Period, the Conversion Price represents (i) a discount of approximately 71.43% to the highest closing price of the Share of HK$2.80 per Share; (ii) a premium of approximately 60.00% over the lowest closing price of the Share of HK$0.50 per Share; and (iii) a discount of approximately 44.44% to the average closing price of the Share of HK$1.44 per Share. Subsequent to the release of the announcement in relation to the Memorandum, the closing price of the Shares continued to surge to above HK$1.00 per Share and the highest closing price of the Shares immediately to the date of the Announcement was HK$1.50 per Share, which could be possibly due to the market anticipation of the Acquisition be possibly realised.

During the Post-Announcement Period, the closing Share price continued to sustain at a high level and the closing price of the Shares have been trading at the range of HK$0.95 per Share to HK$1.52 per Share, with the average closing price of the Shares of approximately HK$1.21 per Share during the Post-Announcement Period representing a discount of approximately 33.88% to the Conversion Price.

Save for (i) the high Share price during the Unusual Period; and (ii) the period after the date of the Memorandum until the end of Post-Announcement Period, both of which reflected the speculation sentiments of the investors, and may not be the most appropriate for our analysis for the assessment on the fairness and reasonableness of the Conversion Price, it is noted that the Conversion Price of HK$0.80 is within the range of the daily closing prices of the Share (i.e. HK$0.50 to HK$2.8) during the Review Period and falls below the average closing Share price of approximately HK$1.16 per Share during the Review Period.

b) Historical trading volume

The following table shows the average daily trading volume of the Shares per month, and the respective percentages of the average daily trading volume of the Shares as compared to the total number of issued Shares at the end of the respective month during the Review Period:

Exhibit V: Historical trading volume of the Shares

	Total monthly trading volume *(in number of Shares)*	No. of trading days in each month *(in number of Shares)*	Approximately average daily trading volume	Average daily trading volume over the Shares in issue as at the end of the month *(approximate %)*
2015				
February				
(since 16 February 2015)	1,385,800	8	173,225	0.01%
March	11,935,000	22	542,500	0.04%
April	80,603,818	19	4,242,306	0.28%
May	863,178,553	19	22,860,285	1.53%
June	414,865,320	22	18,857,515	1.25%
July	146,232,600	22	6,646,936	0.44%
August	51,617,200	21	2,457,962	0.16%
September	69,291,875	20	3,464,594	0.23%
October	322,410,426	20	16,120,521	1.07%
November	150,435,766	21	7,163,608	0.43%
December	62,204,520	22	6,849,808	0.41%
2016				
January	60,031,880	19	3,159,573	0.19%
February (up to and including				
the Latest Practicable Date)	54,438,240	18	3,024,347	0.18%

Source: the website of the Stock Exchange (http://www.hkex.com.hk)

With reference to the HKEx monthly market highlights for December 2015, we noted that the percentage of daily trading volume over market capitalisation of equity securities listed on the Main Board and Growth Enterprise Market of the Stock Exchange during the period from January 2015 to January 2016 was approximately 0.39% (the "**Market Average Trading Volume Rate**"). As illustrated from the table above, the average daily trading volume of the Shares ranged from approximately 0.01% to 1.53% of the total number of issued Shares as at the end of the month, with unusual daily trading volume during the Unusual Period which primarily resulted from the market continued speculation on a possible change of control of the Company, details of which are explained in the above. Other than the Unusual Period, the average daily trading volume of the Shares ranged from approximately 0.01% to 1.07% (the "**Average Daily Trading Volume Rate Range**") of the total number of issued Shares as at the end of the month, with the average of this range of approximately 0.33%. Given that the Market Average Trading Volume Rate is slightly higher than the average of the Average Daily Trading Volume Rate Range of approximately 0.33%, we consider that the trading volume of the Shares during the Review Period was comparable to the trading volume of the equity securities listed on the Stock Exchange. Accordingly, it is commercially justifiable to ask for a deeper discount to the Conversion Price having considered that the high risk of being unable to dispose the Conversion Shares in the market by the Vendor with the historical thin liquidity of the Shares.

c) Comparable transactions with the issuance of convertible bonds/notes

As part of our analysis, we have further identified those issue of convertible bonds/notes as part of the consideration which were announced by companies listed on the Main Board and the Growth Enterprise Market of the Stock Exchange of Hong Kong during the six months immediately before the date of the Formal SP Agreement (the "**Comparable Companies**") for reference. However, in order to maintain a representative sample population, we have excluded companies which had been suspended for trading for more than 12 months.

We have identified 18 Comparable Companies, which are exhaustive and met the said criteria. We consider such sample size is reasonable in our view. Furthermore, having considered the recent volatility of the Hong Kong stock market and that the Comparable Companies (i) adequately covers the prevailing market conditions and sentiments issuance of convertible bonds/notes in Hong Kong which, for example, plays an important role in the determination of the Conversion Price in general; and (ii) provides the Shareholders a general understanding of convertible bonds/notes transactions being conducted in the Hong Kong stock market, we considered that six months prior to and including the date of the Formal SP Agreement is appropriate for this comparable analysis.

Although the scale of operations, financial positions, and future prospects of the Comparable Companies may vary, having taken into account that (i) the stock market sentiments may vary from time to time, and the terms of the Comparable Companies which were issued six months prior to the Formal SP Agreement were determined under similar market conditions and sentiments as the Convertible Notes and thus may reflect the recent trend of the terms of convertible notes/bonds in the market; and (ii) the convertible notes/bonds of the Comparable Companies were issued to both connected persons and independents third parties to the Comparable Companies, we consider that the list of Comparable Companies is an exhaustive list and are of the opinion that the Comparable Companies are fair, sufficient and representative samples for our analysis purpose.

Exhibit VI: Comparable transactions with the issuance of convertible bonds/notes

Company	Stock code	Date of announcement	Principal amount	Maturity	Coupon rate per annum	Premium/ (discount) over/ to the closing price on the last trading day prior to the date of the corresponding announcement	Premium/ (discount) over/ to the closing price on the last five trading days prior to the date of the corresponding announcement
			(HK$ million)	*(years)*	*(%)*	*(%)*	*(%)*
National United Resources Holdings Limited	254	9-Nov-2015	594.0	3	Nil	(6.25)	9.09
Powerwell Pacific Holdings Limited	8265	9-Nov-2015	110.0	2	Nil	(64.30)	(57.60)
China Fortune Investments (Holdings) Limited	8116	28-Oct-2015	200.0	5	Nil	27.30	27.70
Baofeng Modern International Holdings Company Limited	1121	14-Oct-2015	184.8	3	Nil	(9.68)	(8.70)
Excel Development (Holdings) Limited	1372	12-Oct-2015	390.0	2	Nil	(60.78)	(58.76)
Sheen Tai Holdings Group Company Limited	1335	12-Oct-2015	90.0	3	Nil	13.64	14.68
Chinese Food and Beverage Group Limited	8272	6-Oct-2015	24.0	2	Nil	3.23	(6.16)
Henry Group Holdings Limited	859	5-Oct-2015	125.0	5	1.68	3.80	0.00
Evershine Group Holdings Limited	8022	15-Sept-2015	49.7	2	2	(9.21)	(13.75)
GET Holdings Limited	8100	13-Aug-2015	150.4	2	Nil	8.11	2.04 *(Note)*
Kiu Hung International Holdings Limited	381	20-Jul-2015	112.3	3	Nil	2.74	0.00
Cypress Jade Agricultural Holdings Limited	875	15-Jul-2015	250.0	3	Nil	(17.14)	(19.89)

Company	Stock code	Date of announcement		Principal amount	Maturity	Coupon rate per annum	Premium/ (discount) over/ to the closing price on the last trading day prior to the date of the corresponding announcement	Premium/ (discount) over/ to the closing price on the last five trading days prior to the date of the corresponding announcement
				(HK$ million)	*(years)*	*(%)*	*(%)*	*(%)*
Pacific Plywood Holdings Limited	767	10-Jul-2015		2,400.0	5	Nil	(63.00)	(61.80)
China Digital Culture (Group) Limited	8175	10-Jul-2015		360.0	5	Nil	(9.09)	(31.11)
National United Resources Holdings Limited	254	8-Jul-2015		400.0	3	Nil	(28.57)	(31.51)
Ground Properties Company Limited	989	3-Jul-2015		500.0	5	2	(35.11)	(15.51)
Carnival Group International Holdings Limited	996	7-Jun-2015		240.7	3	Nil	7.64	(2.88)
China Eco-Farming Limited	8166	29-May-2015	Bond A	23.0	1.5	Nil	(3.85)	1.30
			Bond B	23.5	3	Nil	(3.85)	1.30
Maximum					**5**	**2.0**	**27.30**	**27.70**
Minimum					**1.5**	**Nil**	**(64.30)**	**(61.80)**
Average					**3.2**	**1.9**	**(13.46)**	**(13.24)**
Company					**3.5**	**Nil**	**(46.31)**	**(44.06)**

Source: the website of the Stock Exchange (http://www.hkex.com.hk)

Note: Such information is not available on the respective announcement. In this regard, we have calculated the premium represented by the conversion price of this company based on its average closing price on the last five trading days prior to the date of the corresponding announcement.

The discount/premium represented by the conversion prices of the respective Comparable Companies to/over their respective closing prices of the shares of the last trading day as per their corresponding announcements ranged from a discount of approximately 64.30% to a premium of approximately 27.30% (the "**LTD Range**") with an average discount of approximately 13.46%. We note that the discount of the Conversion Price to the closing price of the Shares on the Last Trading Day of approximately 46.31% falls within the LTD Range.

The discount/premium represented by the conversion prices of the respective Comparable Companies to/over their respective average closing prices of the shares for the five consecutive trading days as per their corresponding announcements ranged from a discount of approximately 61.80% to a premium of approximately 27.70% (the "**5-Day Range**") with an average discount of approximately 13.24%. We note that the discount of the Conversion Price to the average closing price of Shares for the last five consecutive trading days up and including the Last Trading Day of approximately 44.06% falls within the 5-Day Range.

Having considered that (i) the Conversion Price represents a discount of approximately 46.31% and 44.06% to both the Last Trading Day and the last 5 consecutive trading days up to and including the Last Trading Day respectively; (ii) the Conversion Price is within the range of the closing price of the Shares during the Review Period; and (iii) the discounts represented by the Conversion Price to the closing price of Shares on the Last Trading Day and on the average closing price of Shares for the last five consecutive trading days up to and including the Last Trading Day are all within the range of the LTD Range and the 5-Day Range and is in line with the recent market practice, we consider that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

d) Maturity and interest rate

We note that the maturity term of the Convertible Notes of 3.5 years falls within the range of the maturity term of the Comparable Companies from 1.5 years to 5.0 years. As for interest rate of the Convertible Notes, it is interest-free which is at the low end of the range of the interest rate of the Comparable Companies from nil to 2% per annum and over 80% of the Comparable Companies recorded nil interest rate. Accordingly, we consider that the interest rate of the Convertible Notes is within the said interest rate range of the Comparable Companies and allows the Group to finance the Acquisition with minimal financing costs.

In light that the maturity and interest rate under the Convertible Notes falls within the range of the Comparable Companies and is line with the recent market practice, we consider that the maturity and interest rate of the Convertible Notes are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

(iv) Potential dilution effect on the shareholding of the Shareholders

With reference to the paragraph headed "Effects of the Acquisition on the Shareholding Structure" in the Letter from the Board, the existing shareholding of other public shareholders will be decreased from approximately 44.23% to approximately 27.47% upon full conversion of the Convertible Notes at the initial Conversion Price.

Taking into account (i) the reasons for and benefits of the Acquisition as explained in the paragraph headed "I. Background of and reasons for the Acquisition" above; (ii) the principal terms of the Formal SP Agreement are fair and reasonable, in particular, (a) the fairness and reasonableness of the Consideration as discussed in the paragraph headed "II. Principal terms of the Formal SP Agreement – (i) Basis of the Consideration" above; (b) the discounts of the Conversion Price to the closing price of the Shares falls within the range of the Comparable Companies; (c) the maturity and interest rate under the Convertible Notes fall within the range of the Comparable Companies; and (d) the arrangement of Profit Guarantee is fair and reasonable and safeguard the interest of the Company and the Shareholders; and (iii) the issue of Convertible Notes to settle part of the Consideration would enable the Group to preserve its internal resources for other future business development, we are of the view that the said level of dilution to the shareholding interests of the public shareholders as a result of the allotment and issue of the Conversion Share upon full exercise of conversion rights attaching to the Convertibles Notes is acceptable.

IV. Financial effects of the Transactions on the Group

The unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this Circular has been prepared to illustrate the effects of the Acquisition, assuming the Acquisition had been completed on 30 June 2015. Immediately upon Completion, the Company will own 49% of the equity interest of the Target Company and the Company will not consolidate the results and the net assets of the Target Group according to applicable accounting standards.

(i) Net assets value

According to IR2015, the net assets value of the Group was approximately HK$1,428.39 million as at 30 June 2015. As set out in the "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix V to the Circular, upon Completion, the Enlarged Group's total assets and total liabilities would increase by approximately HK$779.94 million and HK$584.45 million, respectively, and as a result, the net assets value of the Enlarged Group would increase by approximately HK$195.49 million or approximately 13.69% to approximately HK$1,623.88 million.

(ii) Working capital

According to IR2015, the cash and cash equivalents of the Group is approximately HK$52.81 million as at 30 June 2015. Since the Consideration will be partially satisfied as to HK$60 million in cash, the cash level of the Group will decrease immediately upon completion of the Acquisition. As set out in the "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix V to the Circular, upon Completion, the Enlarged Group's cash and cash equivalents will be decreased by HK$60 million to a negative level of HK$7.19 million.

As stated in the paragraph headed "Fund raising activities of the Company in the past twelve months", upon completion of a placing exercise on 25 November 2015 (the "**Placing**"), the Group received net proceeds amounted to approximately HK$194.87 million and approximately HK$160.93 million was utilised as intended uses and the remaining net proceeds of approximately HK$33.94 million were in place in a financial institution and would be used to finance the Acquisition and/or for the general working capital use.

(iii) Gearing

According to IR2015, the gearing ratio of the Group (as calculated by the interest-bearing bank and other borrowings, obligations under finance leases over total equity as at 30 June 2015) was approximately 0.51.

As set out in the "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix V to the Circular, upon Completion, the gearing ratio of the Enlarged Group would decrease by approximately 0.06 or approximately 11.76% to approximately 0.45.

It should be noted that the analyses above are for illustrative purpose only and do not purport to represent how the financial positions and performance of the Group will be after the entering into of the Formal SP Agreement. Based on the foregoing, we are of the view that the Acquisition is generally favorable to the financial performance of the Enlarged Group.

OPINION AND RECOMMENDATION

By taking into account the factors and reasons as stated above, we are of the opinion that (i) the principal terms of the Formal SP Agreement on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition, though not in the ordinary and usual course of business, is in the interests of the Company and the Independent Shareholders as a whole. We would therefore advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Formal SP Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
Titan Financial Services Limited
Arthur Kan **Rachel Lee**
Executive Director *Associate Director*

Mr. Arthur Kan is a licensed person under the SFO to engage in type 6 (advising on corporate finance) regulated activities. He has over 14 years of experience in corporate finance.

Ms. Rachel Lee is a licensed person under the SFO to engage in type 6 (advising on corporate finance) regulated activities. She has over 7 years of experience in corporate finance.

* *The English translation of the Chinese names of the PRC entities in this letter, where indicated, is included for identification purpose only and is not the official English names for such PRC entities.*

1. FINANCIAL INFORMATION

The financial information of the Group:

(a) for the year ended 31 December 2012 is disclosed on pages 27 to 99 of the annual report of the Company for the year ended 31 December 2012. Please refer to hyperlink: http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0417/LTN20130417330.pdf;

(b) for the year ended 31 December 2013 is disclosed on pages 31 to 111 of the annual report of the Company for the year ended 31 December 2013. Please refer to hyperlink: http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0422/LTN20140422239.pdf;

(c) for the year ended 31 December 2014 is disclosed on pages 31 to 117 of the annual report of the Company for the year ended 31 December 2014. Please refer to hyperlink: http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0423/LTN20150423635.pdf; and

(d) for the six months ended 30 June 2015 is disclosed on pages 3 to 28 of the interim report of the Company for the six months ended 30 June 2015. Please refer to hyperlink: http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0910/LTN20150910576.pdf.

All these reports have been published on the website of the Stock Exchange (www.hkexnews.hk).

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 December 2015, being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this circular, the Enlarged Group had the following outstanding indebtedness:

(a) bank borrowings of approximately HK$532,683,000 which were secured by the Group's land use right, properties development in progress, leasehold land and buildings and a bank deposit, and corporate and personal guarantees made by a Group's subsidiary, certain related parties and Mr. Cheng Keung Fai, a controlling shareholder of the Company;

(b) obligation under finance leases of approximately HK$1,018,000, which was secured by the Group's motor vehicle;

(c) other borrowing of approximately HK$155,044,000 (equivalent to USD20,000,000) which was secured by the share charges over certain subsidiaries of the Group and a personal guarantee granted by Mr. Cheng Keung Fai, a controlling shareholder of the Company;

Besides, as at the close of business on 31 December 2015, there were unissued convertible notes of approximately HK$232,551,000 (equivalent to USD30,000,000) which was authorised but unissued. These convertible notes would be secured by the fixed charge to be executed in favour of the subscriber granted by the Company's subsidiary over all the shares to be owned by the Company or its subsidiary in Greater Elite Investments Limited, and a personal guarantee granted by Mr. Cheng Keung Fai, a controlling shareholder of the Company. On 15 February 2016, the Subscription agreement regarding such unissued convertible notes was terminated. Details of the termination was set out in the Company's announcement dated 15 February 2016.

As at the close of business on 31 December 2015, the Enlarged Group had no material contingent liabilities.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances, acceptance credits, which either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as at close of business on 31 December 2015.

3. WORKING CAPITAL STATEMENT OF THE ENLARGED GROUP

Taking into account the effects of completion of the Acquisition, the capital requirement of the Project Companies and the financial resources available to the Enlarged Group, including capital injection from the Group after completion of the Acquisition, the internally available and generated funds and available banking facilities, in the absence of unforeseeable circumstance, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular, in the absence of unforeseeable circumstances.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in the film production and related business, film processing, rental of property and property development. The Group will continue to conduct its existing business. In respect of the property development business of the Group, the project of the Group in respect of a total area of approximately 325,989 square meters situated in the Jiuhua Economic Zone of Xiangtan, Hunan with the name of "湘江國際公館" (Xiang Jiang Guo Ji Gong Guan*) (the "Project"), which includes a five-star hotel and low density residential units, is still ongoing. At the Latest Practicable Date, the exterior decoration of the hotel has been completed while the internal decoration will commence soon. The official opening of the hotel is expected to be in 2017 when the hotel operation starts generating revenue and profit to the Group. The Company has obtained the pre-sale license for 29 semi-detached houses and duplex properties in May 2015, which cover 24,700 square meters in total. The official pre-sale will commence along with the completion and operation of "Jiuhua Avenue" (九華大道) and "Binjiang Road" (濱江路), which is a major road linking Xiangtan and Changsha, the capital city of Hunan Province. At the Latest Practicable Date, one of the major road, namely Jiuhua Avenue" (九華大道), which roadwork was completed and will commence to operate soon. The official pre-sale will launch soon and is expected to generate revenue and profit to the Group.

The property market sets for slower growth in 2016, and any increases in property sale prices are likely to be moderate. Overall market demand is expected to be shifted from rigid demand type of housing to those looking to improve or upgrade their living environment. As the Group's target market in its property development projects are principally catering for affluent middle class in Hunan and its neighboring provinces. The Company continues to be optimistic to the future prospect of the Group's property development business.

In respect of the Group's property rental business, it remains stable and continue to generate sustainable and steady income to the Group. The Group will continue to take notice of potential high quality properties to invest in and expand the rental business in the future.

In respect of the Group's film production and distribution business, it recorded loss before tax of approximately HK$8.47 million (2014: profit of HK$6.47 million) for the six months ended 30 June 2015. The management of the Group will continue to closely monitor the operation of this segment. Nonetheless, in view of the steady growth of the PRC economy, even though at a slower pace, the management of the Group continues to be optimistic to the future prospect of the Group's film production and distribution business.

In respect of the Acquisition, as mentioned in the "Letter from the Board" to this circular, Dongguan City's economic growth in the past has been satisfactory and has become the third largest export region in the PRC. Furthermore, Changan Town and Humen Town are two of the most prosperous towns in Dongguan City and have established themselves as important manufacturing bases.

Since the Project Companies are engaged in the energy saving environmental protection projects by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in Humen Town and Changan Town respectively, the Directors believe that the Project Companies will benefit from the recent government policy of Guangdong Province, which further promotes centralized heat supply and close down small scale furnaces gradually to enhance energy efficiency and reduce the discharge of air pollutants. The Board believes that the Acquisition presents an excellent opportunity for the Group to further expand and diversify its business portfolio and enlarge its assets base. Further information of the Project Companies is set out in Appendices III, IV and VI to this circular.

Looking ahead, the Group will continue to strive for business growth and seize opportunities in order to bring the largest returns for the Shareholders.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong.

ACCOUNTANT'S REPORT ON THE TARGET COMPANY

RSM

29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

3 March 2016

The Board of Directors
Cheung Wo International Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Ever-Grand Development Limited (the "Target Company") and its subsidiary, Special Billion Limited (hereinafter collectively referred to as the "Target Group") for the period from 8 October 2015 (date of incorporation) to 31 December 2015 (the "Period") for inclusion in the circular dated 3 March 2016 issued by Cheung Wo International Holdings Limited (the "Company") in connection with the proposed acquisition of 49% equity interest in the Target Company by the Company (the "Circular").

The Target Company was incorporated on 8 October 2015 in the British Virgin Islands ("BVI") with limited liability and acts as an investment holding company.

As at the date of this report, the Target Company has direct and indirect interests in the subsidiaries as set out in note 1 to the Financial Information.

All the companies of the Target Group have adopted 31 December as their financial year end date.

No audited statutory financial statements have been prepared by the Target Company and its subsidiaries as they are either newly established or there is no statutory audit requirement in their jurisdiction of establishment.

For the purpose of this report, the directors of the Target Company have prepared the consolidated financial statements of the Target Group for the Period in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "HKFRS Financial Statements").

We have performed an independent audit on the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the HKFRS Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information has been prepared from the HKFRS Financial Statements in accordance with HKFRSs. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

The directors of the Target Company are responsible for the preparation of the HKFRS Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Target Group as at 31 December 2015 and of the Target Group's results and cash flows for the Period.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	**From 8 October 2015 (date of incorporation) to 31 December 2015** *HKD'000*
Revenue	*6*	–
Administrative expenses		(35)
Loss before tax		(35)
Income tax expense	*8*	–
Loss and total comprehensive income for the Period attributable to the owners of the Target Group	*9*	(35)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December 2015
	Note	*HKD'000*
Current assets		
Due from a shareholder	*13*	1
Current liabilities		
Accrued expenses		(35)
Net current liabilities		(34)
NET LIABILITIES		(34)
Capital and reserves		
Share capital	*14*	1
Accumulated losses		(35)
TOTAL EQUITY		(34)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2015 HKD'000
Non-current assets		
Investment in a subsidiary	12	–
Current assets		
Due from a shareholder	13	1
Current liabilities		
Accrued expenses		(12)
Net current liabilities		(11)
NET LIABILITIES		(11)
Capital and reserves		
Share capital	14	1
Accumulated losses		(12)
TOTAL EQUITY		(11)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Accumulated losses	Total equity
	HKD'000	*HKD'000*	*HKD'000*
Issuance of share capital *(note 14)*	1	–	1
Loss and total comprehensive income for the Period	–	(35)	(35)
At 31 December 2015	1	(35)	(34)

CONSOLIDATED STATEMENT OF CASH FLOWS

	From 8 October 2015 (date of incorporation) to 31 December 2015
	HKD'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Loss before tax	(35)
Operating loss before working capital change	
Increase in accrued expenses	35
Net cash generated from operating activities	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	–

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company is a company incorporated in the BVI with limited liability on 8 October 2015. The address of its registered office is 3rd Floor, J&C Building, P.O. Box 933, Road Town, British Virgin Islands, VG1110.

The Target Company is principally engaged in investment holdings. The activities of its principal subsidiaries are set out below:

Name of subsidiary	Place of incorporation/ registration	Issued and paid-in capital	Attributable equity interest of the Target Group at 31 December 2015	Attributable equity interest of the Target Group at date of this report	Principal activities
Special Billion Limited	Hong Kong 25 September 2015	HK$1	100%	100%	Investment holding
東莞市晉德能源科技有限公司 Dongguan City Jinde Energy Technology Company Limited	The People's Republic of China (the "PRC") 5 January 2016	Registered capital US$1,000,000 Paid-in capital US$ nil	–	100%	Investment holding
東莞市德晉能源科技有限公司 Dongguan City Dejin Energy Technology Company Limited	The PRC 30 August 2013	Registered capital RMB15,000,000 Paid-in capital RMB100,000	–	80%	Distribution of steam and heat produced by a power plant
東莞市德晉熱力有限公司 Dongguan City Thermal Power Company Limited	The PRC 22 July 2015	Registered capital RMB20,000,000 Paid-in capital RMB nil	–	80%	Distribution of steam and heat produced by a power plant

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with all applicable HKFRSs issued by the HKICPA. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

(a) Application of new and revised HKFRSs

The Target Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 8 October 2015 and consistently apply throughout the Period.

(b) New and revised HKFRSs in issue but not yet effective

The Target Group has not early applied new and revised HKFRSs that have been issued but are not yet effective. The Target Group is in the process of assessing, where applicable, the potential effect of all new and revised HKFRSs and considers that these new and revised HKFRSs would not have a material impact on the Financial Information for the Period.

List of New and revised HKFRSs in issue but not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKAS 1	Disclosure Initiative[2]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[2]

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

2 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgements in the process of applying the Target Group's accounting policies.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Consolidation

The Financial Information include the financial statements of the Target Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Target Group has control. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Target Group has power over an entity when the Target Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Target Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date the control ceases.

The Target Company had only one subsidiary, Special Billion Limited, as at 31 December 2015.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Information of the Target Group's entities are measured using the currency of the primary economic environment in which entity operates (the "functional currency"). The Financial Information is presented in Hong Kong Dollars ("HKD"), which is the Target Company's functional and presentation currency.

(ii) Transactions and balances in Financial Information

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(c) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Target Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Target Group transfers substantially all the risks and rewards of ownership of the assets; or the Target Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(d) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(e) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Target Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Payables

Payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

(f) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the Period. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target Group intends to settle its current tax assets and liabilities on a net basis.

(g) Related parties

A related party is a person or entity that is related to the Target Group.

(A) A person or a close member of that person's family is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

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

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group.

(B) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(i) Events after the reporting period

Events after the reporting period that provide additional information about the Target Group's position at the end of the reporting period are adjusting events and are reflected in the Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Financial Information when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

The Target Group makes estimates and judgements which are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. As at 31 December 2015 there are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

5. FINANCIAL RISK MANAGEMENT

The Target Group did not commence business during the Period. The net liabilities position exposed it to liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(a) Liquidity risk

The Target Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity of the Target Group's financial liabilities as at 31 December 2015 is less than one year.

(b) Categories of financial instruments

	As at 31 December 2015 *HKD'000*
Financial assets:	
Loans and receivables	1
Financial liabilities:	
Financial liabilities at amortised cost	35

(c) Fair value

The carrying amounts of the Target Group's financial assets and financial liabilities as reflected in the statement of financial position approximate their respective fair values.

6. REVENUE

The Target Group did not commence business during the Period.

7. SEGMENT INFORMATION

The directors have identified that, during the Period, the Target Group is principally engaged in a single type of reporting Segment, that is, investment holding. This segment did not generate income or expenses during the Period.

All the assets and liabilities of the Target Group are located in Hong Kong during the Period.

8. INCOME TAX EXPENSE

No provision for profits tax is required since the Target Group has no assessable profit for the Period.

The reconciliation between the income tax expense for the Period and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	From 8 October 2015 (date of incorporation) to 31 December 2015 *HKD'000*
Loss before tax	(35)
Tax at the domestic income tax rate of 16.5%	(6)
Tax effect of expenses that are not deductible	6
Income tax expense	–

No provision for deferred taxation has been made in the Financial Information as there was no material temporary difference.

9. LOSS FOR THE PERIOD

The Target Group's loss for the Period is stated after charging the following:

	From 8 October 2015 (date of incorporation) to 31 December 2015 *HKD*
Auditor's remuneration	–
Directors' remuneration	–

10. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

During the Period, no directors' emoluments were paid or payable to the directors of the Target Group.

None of the directors of the Target Group waived any emolument during the Period.

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

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

11. DIVIDENDS

No dividend has been declared or paid by the Target Group during the Period.

12. INVESTMENT IN A SUBSIDIARY

	As at 31 December 2015
Unlisted investment, at cost	HKD1

Particulars of the subsidiary are described in note 1.

13. DUE FROM A SHAREHOLDER

Amount due from a shareholder is unsecured, interest-free and repayment on demand.

14. SHARE CAPITAL

	As at 31 December 2015 *HKD'000*
Registered capital (US$100, equivalent to HKD775)	1
Issued and paid up capital	1

The Target Company was established on 8 October 2015 with registered capital of USD100.

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Target Group currently does not have any specific policies and processes for managing capital.

The Target Group is not subject to any externally imposed capital requirements.

15. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE TARGET COMPANY

(a) Statement of financial position of the Company

	Note	**As at 31 December 2015** *HKD'000*
Current assets		
Due from a shareholder	*13*	1
Current liabilities		
Accrued expenses		(12)
Net current liabilities		(11)
NET LIABILITIES		(11)
Capital and reserves		
Share capital	*14*	1
Accumulated losses		(12)
TOTAL EQUITY		(11)

(b) Reserve movement of the Company

	Share capital *HKD'000*	**Accumulated losses** *HKD'000*	**Total equity** *HKD'000*
Issuance of share capital *(note 14)*	1	–	1
Loss and total comprehensive income for the Period	–	(12)	(12)
At 31 December 2015	1	(12)	(11)

16. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the Period, on 5 January 2016, the Target Group established 東莞市晉德能源科技有限公司 (Dongguan City Jinde Energy Technology Company Limited*) (the "WFOE"), a wholly foreign-owned enterprise, in the PRC.

On 11 January 2016, the WFOE acquired 80% equity interests in 東莞市德晉能源科技有限公司 (Dongguan City Dejin Energy Technology Company Limited*) and 東莞市德晉熱力有限公司 (Dongguan City Dejin Thermal Power Company Limited*).

Total consideration of the acquisition of Dongguan City Dejin Energy Technology Company Limited and Dongguan City Dejin Thermal Power Company Limited (collectively the "Project Companies") were approximately RMB28,000,000. Both of the Project Companies are engaged in the energy saving environmental protection project by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers.

As the initial accounting for the business combination is incomplete at the date of this Circular authorised for issue, the full disclosures as required by HKFRS 3 (Revised) Business Combination could not be made as the estimation of the fair value of the identifiable assets and liabilities of the Project Companies are in the process.

17. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 December 2015 up to the date of this report.

Yours faithfully,
RSM Hong Kong
Certified Public Accountants
Hong Kong

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.

A. ACCOUNTANT'S REPORT ON DONGGUAN CITY DEJIN ENERGY TECHNOLOGY COMPANY LIMITED

RSM

29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

3 March 2016

The Board of Directors
Cheung Wo International Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of 東莞市德晉能源科技有限公司 (Dongguan City Dejin Energy Technology Company Limited*) ("Humen Project Company") for the period from 30 August 2013 (date of establishment) to 31 December 2013, year ended 31 December 2014 and nine months ended 30 September 2015 (the "Relevant Periods") for inclusion in the circular dated 3 March 2016 issued by Cheung Wo International Holdings Limited (the "Company") in connection with the proposed acquisition of 49% equity interest in Ever-Grand Development Limited (the "Target Company") by the Company (the "Circular").

The principal activity of Humen Project Company is to engage in the energy saving environmental protection project by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in certain areas in Humen Town.

Humen Project Company was established on 30 August 2013 in the People's Republic of China (the "PRC") with limited liability and did not commence business during the Relevant Periods.

Humen Project Company has adopted 31 December as the financial year end date.

No statutory financial statements have been prepared for Humen Project Company since its establishment as there is no statutory audit requirement in its jurisdiction of establishment.

For the purpose of this report, the directors of Humen Project Company have prepared the financial statements of Humen Project Company for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "HKFRS Financial Statements").

We have performed an independent audit on the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and such have examined the HKFRS Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information has been prepared from the HKFRS Financial Statements in accordance with HKFRSs. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

The directors of Humen Project Company are responsible for the preparation of the HKFRS Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Humen Project Company as at 31 December 2013, 31 December 2014 and 30 September 2015 and of Humen Project Company's results and cash flows for the Relevant Periods.

For the purpose of this report, the directors of Humen Project Company have prepared the comparative financial information of Humen Project Company for the nine months ended 30 September 2014 (the "Comparative Financial Information") in accordance with the same basis adopted in respect of the Financial Information. We have reviewed the Comparative Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the Comparative Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the Comparative Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 to the Financial Information, which mentions that Humen Project Company incurred loss of approximately RMB1,164,000 for the nine months ended 30 September 2015, and also recorded net current liabilities of approximately RMB4,464,000 and net liabilities of approximately RMB783,000 as at 30 September 2015, and note 19 to the Financial Information regarding the capital commitments of RMB3,262,000 as at 30 September 2015. These conditions indicate the existence of a material uncertainty that may cast significant doubt on Humen Project Company's ability to continue as a going concern.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	From 30 August 2013 (date of establishment) to 31 December 2013	For the year ended 31 December 2014	Nine months ended 30 September 2014	Nine months ended 30 September 2015
		RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	*7*	–	–	–	–
Administrative expenses		–	(757)	(252)	(1,164)
Loss before tax		–	(757)	(252)	(1,164)
Income tax expense	*9*	–	–	–	–
Loss and total comprehensive income for the year/period attributable to the owners of Humen Project Company	*10*	–	(757)	(252)	(1,164)

STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2013 RMB'000	As at 31 December 2014 RMB'000	As at 30 September 2015 RMB'000
Non-current assets				
Property, plant and equipment	14	–	–	3,681
Current assets				
Due from a related company	15	–	–	25
Prepayments and deposits		–	–	1,501
Other receivables		–	2	109
Bank and cash balances	16	100	14	1,123
		100	16	2,758
Current liabilities				
Accruals and other payables		–	73	6,076
Deposits received		–	–	1,146
		–	73	7,222
Net current assets/(liabilities)		100	(57)	(4,464)
NET ASSETS/(LIABILITIES)		100	(57)	(783)
Capital and reserves				
Paid-in capital	17	100	100	100
Accumulated losses		–	(157)	(883)
TOTAL EQUITY		100	(57)	(783)

STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *RMB'000*	**Capital reserve** *RMB'000* *(Note 18)*	**Accumulated losses** *RMB'000*	**Total equity** *RMB'000*
Capital contribution upon incorporation	100	–	–	100
Loss and total comprehensive income for the period	–	–	–	–
At 31 December 2013 and 1 January 2014	100	–	–	100
Contribution from shareholders	–	600	–	600
Loss and total comprehensive income for the year	–	–	(757)	(757)
At 31 December 2014 and 1 January 2015	100	600	(757)	(57)
Contribution from shareholders	–	438	–	438
Loss and total comprehensive income for the period	–	–	(1,164)	(1,164)
At 30 September 2015	100	1,038	(1,921)	(783)
At 1 January 2014	100	–	–	100
Contribution from shareholders (unaudited)	–	133	–	133
Loss and total comprehensive income for the period (unaudited)	–	–	(252)	(252)
At 30 September 2014 (unaudited)	100	133	(252)	(19)

STATEMENTS OF CASH FLOWS

	From 30 August 2013 (date of establishment) to 31 December 2013	For the year ended 31 December 2014	Nine months ended 30 September 2014	2015
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax	–	(757)	(252)	(1,164)
Adjustment for:				
Depreciation	–	–	–	2
Operating loss before working capital changes	–	(757)	(252)	(1,162)
Increase in the amount due from a related company	–	–	–	(25)
Increase in prepayments and deposits	–	–	–	(1,501)
Increase in other receivables	–	(2)	(1)	(107)
Increase in accruals and other payables	–	73	20	2,983
Increase in deposit received	–	–	–	1,146
Cash (used in)/generated from operations	–	(686)	(233)	1,334
Income taxes paid	–	–	–	–
Net cash (used in)/generated from operating activities	–	(686)	(233)	1,334
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from capital contribution	100	–	–	–
Contribution from shareholders	–	600	133	438
Net cash generated from financing activities	100	600	133	438
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property, plant and equipment	–	–	–	(663)
Net cash used in investing activities	–	–	–	(663)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	100	(86)	(100)	1,109
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	–	100	100	14
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	100	14	–	1,123
ANALYSIS OF CASH AND CASH EQUIVALENTS				
Bank and cash balances	100	14	–	1,123

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Humen Project Company is a company established in the PRC with limited liability on 30 August 2013. The address of its registered office and the principal place of business is 東莞市虎門鎮白沙社區站北路 (Zhanbei Road, Baisha Community, Humen Town, Dongguan City*).

Humen Project Company is principally engaged in the energy saving environmental protection project by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in certain areas in Humen Town.

2. GOING CONCERN

Humen Project Company incurred loss of approximately RMB1,164,000 for the nine months ended 30 September 2015, and also recorded net current liabilities of approximately RMB4,464,000 and net liabilities of approximately RMB783,000 as at 30 September 2015. These conditions indicate the existence of a material uncertainty that may cast significant doubt on Humen Project Company's ability to continue as a going concern and therefore, Humen Project Company may not be able to realise its assets and discharge its liabilities in the normal course of business.

The Financial Information has been prepared on a going concern basis, the validity of which depends upon the future profitability of Humen Project Company. The directors have prepared forecasts and projections, taking into account of reasonably possible changes in the business performances, show that Humen Project Company should be able to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the Financial Information on a going concern basis. Should Humen Project Company be unable to continue as a going concern, adjustments would have to be made to the Financial Information to adjust the value of Humen Project Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets.

3. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with all applicable HKFRSs issued by the HKICPA. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

(a) Application of new and revised HKFRSs

Humen Project Company has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2015 and consistently apply throughout the Relevant Periods.

(b) New and revised HKFRSs in issue but not yet effective

Humen Project Company has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial period beginning on 1 January 2015. Humen Project Company is in the process of assessing, where applicable, the potential effect of all new and revised HKFRSs and considers that these new and revised HKFRSs would not have a material impact on the Financial Information for the Relevant Periods.

List of New and revised HKFRSs in issue but not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKAS 1	Disclosure Initiative[2]

Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[2]

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

2 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying Humen Project Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 5 to the Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Information of Humen Project Company are measured using the currency of the primary economic environment in which Humen Project Company operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is Humen Project Company's functional and presentation currency.

(ii) Transactions and balances in Financial Information

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(b) Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes are stated in the statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Humen Project Company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Furniture and fixtures	5 years
Office equipment	3 years
Motor vehicle	4 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(c) Operating leases

Leases that do not substantially transfer to Humen Project Company all the risks and rewards of ownership of assets are accounted as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(d) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when Humen Project Company becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; Humen Project Company transfers substantially all the risks and rewards of ownership of the assets; or Humen Project Company neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of Humen Project Company or the counterparty.

(e) Receivables

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

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(f) Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

(g) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of Humen Project Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Payables

Payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) Equity instruments

Equity instruments issued by Humen Project Company are recorded at the proceeds received, net of direct issue costs.

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to Humen Project Company and the amount of revenue can be measured reliably.

(i) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of each reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

Humen Project Company contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by Humen Project Company and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by Humen Project Company to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when Humen Project Company can no longer withdraw the offer of those benefits and when Humen Project Company recognises restructuring costs and involves the payment of termination benefits.

(j) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Humen Project Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of each reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Humen Project Company intends to settle its current tax assets and liabilities on a net basis.

(k) Related parties

A related party is a person or entity that is related to Humen Project Company.

(A) A person or a close member of that person's family is related to Humen Project Company if that person:

(i) has control or joint control over Humen Project Company;

(ii) has significant influence over Humen Project Company; or

(iii) is a member of the key management personnel of Humen Project Company or of a parent of Humen Project Company.

(B) An entity is related to Humen Project Company if any of the following conditions applies:

(i) The entity and Humen Project Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either Humen Project Company or an entity related to Humen Project Company.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(l) Impairment of financial assets

At the end of each reporting period, Humen Project Company assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the financial assets have been affected.

For receivables that are assessed not to be impaired individually, Humen Project Company assesses them collectively for impairment, based on Humen Project Company's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Humen Project Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(n) Events after the reporting period

Events after the reporting period that provide additional information about Humen Project Company's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the combined financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the Financial Information when material.

5. KEY ESTIMATES

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

Impairment loss for bad and doubtful debts

Humen Project Company makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

No impairment loss for bad and doubtful debts was made by Humen Project Company during the Relevant Periods.

6. FINANCIAL RISK MANAGEMENT

Humen Project Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and interest rate risk. Humen Project Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Humen Project Company's financial performance.

(a) Credit risk

Amount due from a related company is closely monitored by the directors.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(b) Liquidity risk

Humen Project Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity of Humen Project Company's financial liabilities as at 31 December 2013, 31 December 2014 and 30 September 2015 is less than one year.

(c) Interest rate risk

Except for the bank balances, Humen Project Company has no significant interest-bearing assets and liabilities, Humen Project Company's operating cash flows are substantially independent of changes in market interest rates.

Humen Project Company's exposure to interest-rate risk arises from its bank balances. The bank balances bear interests at variable rates varied with the then prevailing market condition.

(d) Categories of financial instruments

	As at 31 December 2013 *RMB'000*	As at 31 December 2014 *RMB'000*	As at 30 September 2015 *RMB'000*
Financial assets:			
Loans and receivables (including cash and cash equivalents)	100	16	1,257
Financial liabilities:			
Financial liabilities at amortised cost	–	73	7,222

(e) Fair value

The carrying amounts of Humen Project Company's financial assets and financial liabilities as reflected in the statements of financial position approximate their respective fair values.

7. REVENUE

Humen Project Company did not commence business during the Relevant Periods.

8. SEGMENT INFORMATION

The directors have identified that, during the Relevant Periods, Humen Project Company is principally engaged in a single type of reporting segment, that is, distribution of steam and heat by a power plant in Humen Town. This segment did not commence business during the Relevant Periods.

All the assets and liabilities of Humen Project Company are located in the PRC during the Relevant Periods.

9. INCOME TAX EXPENSE

No provision for profits tax is required since Humen Project Company has no assessable profits for the Relevant Periods.

The reconciliation between the income tax expense for the Relevant Periods and the product of loss before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

	From 30 August 2013 (date of establishment) to 31 December 2013	For the year ended 31 December 2014	Nine months ended 30 September 2014	Nine months ended 30 September 2015
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Loss before tax	–	(757)	(252)	(1,164)
Tax at the domestic income tax rate of 25%	–	(189)	(63)	(291)
Tax effect of expenses that are not deductible	–	189	63	291
Income tax expense	–	–	–	–

No provision for deferred taxation has been made in the Financial Information as there was no material temporary difference.

10. LOSS FOR THE YEAR/PERIOD

Humen Project Company's loss for the year/period is stated after charging the following:

	From 30 August 2013 (date of establishment) to 31 December 2013	For the year ended 31 December 2014	Nine months ended 30 September 2014	Nine months ended 30 September 2015
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Auditor's remuneration	–	–	–	–
Directors' remuneration	–	–	–	–
Depreciation	–	–	–	2
Operating lease charges – land and buildings	–	15	6	132
Staff costs (including directors' remuneration *(Note 12)*) *(Note 11)*	–	192	72	531

11. EMPLOYEE BENEFITS EXPENSE

	From 30 August 2013 (date of establishment) to 31 December 2013	For the year ended 31 December 2014	Nine months ended 30 September	
			2014	2015
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Employee benefits expense:				
Salaries, bonuses and allowances	–	161	60	451
Retirement benefit scheme contributions	–	31	12	80
	–	192	72	531

Five highest paid individuals

The five highest paid individuals in Humen Project Company during the Relevant Periods did not include any directors whose remunerations are set out in note 12. The emoluments of these highest paid individuals for each of the Relevant Periods are set out below:

	From 30 August 2013 (date of establishment) to 31 December 2013	For the year ended 31 December 2014	Nine months ended 30 September	
			2014	2015
	RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries, bonuses and allowances	–	119	60	251
Retirement benefit scheme contributions	–	24	12	51
	–	143	72	302

The number of non-director, highest paid individuals whose emoluments fell within the following bands:

	From 30 August 2013 (date of establishment) to 31 December 2013	For the year ended 31 December 2014	Nine months ended 30 September 2014	
			2014	2015
			(Unaudited)	
Nil to RMB1,000,000	–	5	3	5

There were only three employees within Humen Project Company for the nine months ended 30 September 2014.

12. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

	From 30 August 2013 (date of establishment) to 31 December 2013	For the year ended 31 December 2014	Nine months ended 30 September 2014	
			2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)	
Directors' fee	–	–	–	–
Salaries, bonuses and other benefits	–	–	–	9
Retirement scheme contributions	–	–	–	2
	–	–	–	11

Details of directors' remuneration are as follows:

	Directors' fees	Salaries, bonuses and other benefits	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
From 30 August 2013 (date of establishment) to 31 December 2013				
Director				
CHEN Jie Lan (iii)	–	–	–	–
Supervisor				
CHEN Jia Xin (v)	–	–	–	–
Total	–	–	–	–
For the year ended 31 December 2014				
Director				
CHEN Jie Lan (iii)	–	–	–	–
Supervisor				
CHEN Jia Xin (v)	–	–	–	–
Total	–	–	–	–
Nine months ended 30 September 2015				
Director				
XIANG Jun Jie (i)	–	–	–	–
ZHENG Wen Feng (ii)	–	–	–	–
CHEN Jie Lan (iii)	–	–	–	–
Supervisor				
ZHENG Jia An (iv)	–	9	2	11
CHEN Jia Xin (v)	–	–	–	–
Total	–	9	2	11
Nine months ended 30 September 2014 (unaudited)				
Director				
XIANG Jun Jie (i)	–	–	–	–
ZHENG Wen Feng (ii)	–	–	–	–
CHEN Jie Lan (iii)	–	–	–	–
Supervisor				
ZHENG Jia An (iv)	–	–	–	–
CHEN Jia Xin (v)	–	–	–	–
Total	–	–	–	–

(i) XIANG Jun Jie was appointed as a director on 15 September 2015.

(ii) ZHENG Wen Feng was appointed as a director on 6 February 2015 and resigned on 15 September 2015.

(iii) CHEN Jie Lan was appointed as a director on 30 August 2013 and resigned on 6 February 2015.

(iv) ZHENG Jia An was appointed as a supervisor on 15 September 2015.

(v) CHEN Jia Xin was appointed as a supervisor on 30 August 2013 and resigned on 15 September 2015.

None of the directors of Humen Project Company waived any emolument during the Relevant Periods.

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

No significant transactions, arrangements and contracts in relation to Humen Project Company's business to which Humen Project Company was a party and in which a director of Humen Project Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time throughout the Relevant Periods.

13. DIVIDENDS

No dividend has been declared or paid by Humen Project Company during the Relevant Periods.

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures	Office equipment	Motor vehicle	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At 30 August 2013 (date of establishment), 31 December 2013 and 31 December 2014	–	–	–	–	–
Additions	73	16	94	3,500	3,683
At 30 September 2015	73	16	94	3,500	3,683
Accumulated depreciation					
At 30 August 2013 (date of establishment), 31 December 2013 and 31 December 2014	–	–	–	–	–
Charge for the period	1	1	–	–	2
At 30 September 2015	1	1	–	–	2
Carrying amount					
At 30 September 2015	72	15	94	3,500	3,681
At 31 December 2013 and 31 December 2014	–	–	–	–	–

15. DUE FROM A RELATED COMPANY

	As at 31 December 2013 *RMB'000*	As at 31 December 2014 *RMB'000*	As at 30 September 2015 *RMB'000*
東莞市德晉熱力有限公司 (Dongguan City Dejin Thermal Power Company Limited*) ("Changan Project Company")	–	–	25
Maximum amounts of the balances outstanding during the year/period:	–	–	25

A director, Mr. XIANG Jun Jie have beneficial interest in Changan Project Company with significant influence. The amount due is unsecured, interest-free and repayable on demand.

16. BANK AND CASH BALANCES

	As at 31 December 2013 *RMB'000*	As at 31 December 2014 *RMB'000*	As at 30 September 2015 *RMB'000*
Bank and cash balances	100	14	1,123

The bank and cash balances of Humen Project Company are denominated in the following currency:

	As at 31 December 2013 *RMB'000*	As at 31 December 2014 *RMB'000*	As at 30 September 2015 *RMB'000*
RMB	100	14	1,123

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

17. PAID-IN CAPITAL

	Amount
	RMB'000
Registered capital:	
Upon establishment, at 31 December 2013 and 1 January 2014	100
Increase in registered capital	14,900
At 31 December 2014 and 30 September 2015	15,000
Paid-in capital:	
Upon establishment, at 31 December 2013, 31 December 2014 and at 30 September 2015	100

Humen Project Company was established on 30 August 2013 with registered capital of RMB100,000. On 19 August 2014 the registered capital of Humen Project Company was increased from RMB100,000 to RMB15,000,000.

Humen Project Company's objectives when managing capital are to safeguard Humen Project Company's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

Humen Project Company currently does not have any specific policies and processes for managing capital.

Humen Project Company is not subject to any externally imposed capital requirements.

18. CAPITAL RESERVE

The capital reserve represents amount due to ex-shareholders which were forfeited during Humen Project Company's shares transactions.

19. CAPITAL COMMITMENTS

At the end of each reporting period, Humen Project Company had capital commitments as follows:

	As at 31 December 2013	As at 31 December 2014	As at 30 September 2015
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for: construction costs for property, plant and equipment	–	–	3,362

20. LEASE COMMITMENTS

As at each of the Relevant Periods, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December 2013 *RMB'000*	As at 31 December 2014 *RMB'000*	As at 30 September 2015 *RMB'000*
Within one year	–	–	55
In the second to fifth years inclusive	–	–	32
	–	–	87

Operating lease payments represent rentals payable by Humen Project Company for its offices. Leases are negotiated for a term of two years and rentals are fixed over the lease terms and do not include contingent rentals.

21. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the Financial Information, details of transaction between Humen Project Company and other related parties are disclosed below:

	From 30 August 2013 to 31 December 2013 *RMB'000*	For the year ended 31 December 2014 *RMB'000*	Nine months ended 30 September 2014 *RMB'000* (unaudited)	Nine months ended 30 September 2015 *RMB'000*
Amount due to ex-shareholders forfeited and credited to capital reserve *(Note 18)*	–	600	133	438

(b) Compensation of key management personnel

Members of key management personnel of Humen Project Company during the Relevant Periods comprised only the directors whose remunerations are set out in Note 12.

22. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Humen Project Company in respect of any period subsequent to 30 September 2015 up to the date of this report.

Yours faithfully,
RSM Hong Kong
Certified Public Accountants
Hong Kong

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be granted as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.

B. ACCOUNTANT'S REPORT ON DONGGUAN CITY DEJIN THERMAL POWER COMPANY LIMITED

RSM

29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

3 March 2016

The Board of Directors
Cheung Wo International Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of 東莞市德晉熱力有限公司 (Dongguan City Dejin Thermal Power Company Limited*) ("Changan Project Company") for the period from 22 July 2015 (date of establishment) to 30 September 2015 (the "Period") for inclusion in the circular dated 3 March 2016 issued by Cheung Wo International Holdings Limited (the "Company") in connection with the proposed acquisition of 49% equity interest in Ever-Grand Development Limited (the "Target Company") by the Company (the "Circular").

The principal activity of Changan Project Company is engaged in the energy saving environmental protection project by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in certain areas in Changan Town.

Changan Project Company was established on 22 July 2015 in the People's Republic of China (the "PRC") with limited liability and did not commence business during the Period.

Changan Project Company has adopted 31 December as the financial year end date.

No audited statutory financial statements have been prepared by Changan Project Company as it is newly established.

For the purpose of this report, the directors of Changan Project Company have prepared the financial statements of Changan Project Company for the Period in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "HKFRS Financial Statements").

We have performed an independent audit on the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the HKFRS Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information has been prepared from the HKFRS Financial Statements in accordance with HKFRSs. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

The directors of Changan Project Company are responsible for the preparation of the HKFRS Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Changan Project Company as at 30 September 2015 and of Changan Project Company's results and cash flows for the Period.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	**From 22 July 2015 (date of establishment) to 30 September 2015** *RMB'000*
Revenue	*6*	–
Administrative expenses		(40)
Loss before tax		(40)
Income tax expense	*8*	–
Loss and total comprehensive income for the Period attributable to the owners of Changan Project Company	*9*	(40)

STATEMENT OF FINANCIAL POSITION

	Note	As at 30 September 2015 *RMB'000*
Current liabilities		
Accruals		15
Due to a related company	*12*	25
NET LIABILITIES		(40)
Capital and reserves		
Paid-in capital	*13*	–
Accumulated losses		(40)
TOTAL EQUITY		(40)

STATEMENT OF CHANGES IN EQUITY

	Paid-in capital	Accumulated losses	Total equity
	RMB'000	*RMB'000*	*RMB'000*
Capital contribution upon establishment *(note 13)*	–	–	–
Loss and total comprehensive income for the Period	–	(40)	(40)
At 30 September 2015	–	(40)	(40)

STATEMENT OF CASH FLOWS

	From 22 July 2015 (date of establishment) to 30 September 2015
	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Loss before tax	(40)
Operating loss before working capital change	
Increase in accruals	15
Increase in the amount due to a related company	25
Net cash generated from operating activities	40
NET INCREASE IN CASH AND CASH EQUIVALENTS	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK AND CASH BALANCES	–

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Changan Project Company is a company established in the PRC with limited liability on 22 July 2015. The address of its registered office is 東莞市長安鎮錦廈社區長青北路315號中惠山畔名城F區257號鋪之二 (Section 2 of Shop No. 257, Area F, Zhong Hui Shan Pan Ming Cheng, No. 315 of Changqing Bei Road, Jinsha Community, Changan Town, Dongguan City*).

Changan Project Company is principally engaged in the energy saving environmental protection project by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in certain areas in Changan Town during the Period.

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with all applicable HKFRSs issued by the HKICPA. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

(a) Application of new and revised HKFRSs

Changan Project Company has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 22 July 2015 and consistently apply throughout the Period.

(b) New and revised HKFRSs in issue but not yet effective

Changan Project Company has not early applied new and revised HKFRSs that have been issued but are not yet effective. Changan Project Company is in the process of assessing, where applicable, the potential effect of all new and revised HKFRSs and considers that these new and revised HKFRSs would not have a material impact on the Financial Information for the Period.

List of New and revised HKFRSs in issue but not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKAS 1	Disclosure Initiative[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[2]

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

2 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgements in the process of applying Changan Project Company's accounting policies.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

(a) Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Information of Changan Project Company are measured using the currency of the primary economic environment in which Changan Project Company operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is Changan Project Company's functional and presentation currency.

(ii) Transactions and balances in Financial Information

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(b) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when Changan Project Company becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; Changan Project Company transfers substantially all the risks and rewards of ownership of the assets; or Changan Project Company neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(c) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of Changan Project Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Payables

Payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) Equity instruments

Equity instruments issued by Changan Project Company are recorded at the proceeds received, net of direct issue costs.

(d) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of each reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

Changan Project Company contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by Changan Project Company and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by Changan Project Company to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when Changan Project Company can no longer withdraw the offer of those benefits and when Changan Project Company recognises restructuring costs and involves the payment of termination benefits.

(e) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Changan Project Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Changan Project Company intends to settle its current tax assets and liabilities on a net basis.

(f) Related parties

A related party is a person or entity that is related to Changan Project Company.

(A) A person or a close member of that person's family is related to Changan Project Company if that person:

(i) has control or joint control over Changan Project Company;

(ii) has significant influence over Changan Project Company; or

(iii) is a member of the key management personnel of Changan Project Company or of a parent of Changan Project Company.

(B) An entity is related to Changan Project Company if any of the following conditions applies:

(i) The entity and Changan Project Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either Changan Project Company or an entity related to Changan Project Company.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(g) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Changan Project Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Changan Project Company makes estimates and judgements which are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Changan Project Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. As at 30 September 2015 there are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

5. FINANCIAL RISK MANAGEMENT

Changan Project Company did not commence business during the Period. The net liabilities position exposed it to liquidity risk. Changan Project Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Changan Project Company's financial performance.

(a) Liquidity risk

Changan Project Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity of Changan Project Company's financial liabilities as at 30 September 2015 is less than one year.

(b) Categories of financial instruments

	As at 30 September 2015 *RMB'000*
Financial liabilities:	
Financial liabilities at amortised cost	40

(c) Fair value

The carrying amounts of Changan Project Company's financial liabilities as reflected in the statement of financial position approximate their respective fair values.

6. REVENUE

Changan Project Company did not commence business during the Period.

7. SEGMENT INFORMATION

The directors have identified that, during the Period, Changan Project Company is principally engaged in a single type of reporting segment, that is, distribution of steam and heat by a power plant in Changan Town. This segment did not commence business during the Period.

All the liabilities of Changan Project Company are located in the PRC during the Period.

8. INCOME TAX EXPENSE

No provision for profits tax is required since Changan Project Company has no assessable profit for the Period.

The reconciliation between the income tax expense for the Period and the product of loss before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

	From 22 July 2015 (date of establishment) to 30 September 2015 *RMB'000*
Loss before tax	(40)
Tax at the domestic income tax rate of 25%	(10)
Tax effect of expenses that are not deductible	10
Income tax expense	–

No provision for deferred taxation has been made in the Financial Information as there was no material temporary difference.

9. LOSS FOR THE PERIOD

Changan Project Company's loss for the Period is stated after charging the following:

	From 22 July 2015 (date of establishment) to 30 September 2015 *RMB'000*
Auditor's remuneration	–
Directors' remuneration	–
Staff costs (including directors' remuneration)	15

10. EMPLOYEE BENEFITS EXPENSE

	From 22 July 2015 (date of establishment) to 30 September 2015
	RMB'000
Employee benefits expense:	
Salaries, bonuses and allowances	15
Retirement benefit scheme contributions	–
	15

Five highest paid individuals

There were 3 employees during the Period. The three highest paid individuals in Changan Project Company during the Period did not include any directors. The emoluments of these highest paid individuals for each of the Period are set out below:

	From 22 July 2015 (date of establishment) to 30 September 2015
	RMB'000
Salaries, bonuses and allowances	15
Retirement benefit scheme contributions	–
	15

The number of non-director, highest paid individuals whose emoluments fell within the following bands:

	From 22 July 2015 (date of establishment) to 30 September 2015
Nil to RMB1,000,000	3

11. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

During the Period, no directors' emoluments were paid or payable to the directors of Changan Project Company.

None of the directors of Changan Project Company waived any emolument during the Period.

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

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

12. DIVIDENDS

No dividend has been declared or paid by Changan Project Company during the Period.

13. DUE TO A RELATED COMPANY

Name	At 30 September 2015 *RMB'000*
東莞市德晉能源科技有限公司 (Dongguan City Dejin Energy Technology Company Limited*) ("Humen Project Company")	25

A director, Mr. XIANG Jun Jie has beneficial interest in Humen Project Company with significant influence. The amount due is unsecured, interest-free and repayable on demand.

14. PAID-IN CAPITAL

	As at 30 September 2015 *RMB'000*
Registered capital	20,000
Paid-in capital	–

Changan Project Company was established on 22 July 2015 with registered capital of RMB20,000,000. No capital was injected since its establishment.

Changan Project Company's objectives when managing capital are to safeguard Changan Project Company's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

Changan Project Company currently does not have any specific policies and processes for managing capital.

Changan Project Company is not subject to any externally imposed capital requirements.

15. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Changan Project Company in respect of any period subsequent to 30 September 2015 up to the date of this report.

Yours faithfully,
RSM Hong Kong
Certified Public Accountants
Hong Kong

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

The Target Company, a company incorporated in the BVI with limited liability on 8 October 2015, is an investment holding company and does not have any active business operations. Special Billion, the wholly owned subsidiary of the Target Company, was incorporated in Hong Kong with limited liability on 25 September 2015 and is an investment holding company and does not have any active business operations. The Target Company ultimately holds 80% equity interest in Humen Project Company and Changan Project Company of which the principal activity are to engage in the energy saving environmental protection project by distribution of steam and heat produced by a power plant. Details of financial information of the Target Group and Project Companies can be found in Appendix II and III respectively.

Set out below is the management discussion and analysis on the financials of the Project Companies based on the financial information of each of the Project Companies as set out in Appendix III to this circular: (a) for the period from 30 August 2013 (date of establishment) to 31 December 2013, for the year ended 31 December 2014 and for the nine months ended 30 September 2015 (in the case of Humen Project Company); and (b) for the period from 22 July 2015 (date of establishment) to 30 September 2015 (in the case of Changan Project Company) (the "**Relevant Period**", as the case may be).

1. HUMEN PROJECT COMPANY

Description

Established as a company with limited liability in the PRC on 30 August 2013, Humen Project Company is principally engaged in the energy saving environmental protection project by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in certain areas in Humen Town, the PRC. Prior to the establishment of the WFOE, Humen Project Company was wholly owned by four individuals namely Mr. Xiang Jun Jie, Mr. Zheng Jia An, Mr. Zhang Shu Kun and Mr. Nie Yu Ping whom, to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, are Independent Third Parties and are independent of and not connected with the Vendor and its associates. As at the Latest Practicable Date, as part of the Reorganisation, the WFOE has been established and all of the equity interests of Humen Project Company have been transferred to the WFOE. Hence, as at the Latest Practicable Date, Mr. Xiang Jun Jie, Mr. Zheng Jia An, Mr. Zhang Shu Kun and Mr. Nie Yu Ping have ceased to be shareholders of Humen Project Company.

Pursuant to the Formal SP Agreement, the Group would acquire 49% of the Target Company, which is an investment holding company which will ultimately hold 80% of Humen Project Company upon completion of the Formal SP Agreement.

Business and Financial Highlights

Revenue

During the Relevant Period, Humen Project Company did not record any revenue as it did not commence nor conduct any business.

Expenses

As Humen Project Company had not conducted any business during the Relevant Period, the only expenses incurred during the time were administrative expenses principally comprised of management remuneration, corporate transportation costs, travel reimbursement, and other operating overheads, which amounted to nil for the period from 30 August 2013 to 31 December 2013, approximately RMB0.76 million for the year ended 31 December 2014 and approximately RMB1.16 million for the nine months ended 30 September 2015 respectively.

Loss for the year/period

In consideration of the above reasons, for the period ended 31 December 2013, for the year ended 31 December 2014 and the nine months ended 30 September 2015, Humen Project Company recorded loss attributable to owners of nil, approximately RMB0.76 million, and RMB1.16 million respectively.

Current and non-current assets, financial condition, capital structure and gearing ratio

As of 31 December 2013 and 2014 and as of 30 September 2015, Humen Project Company had current assets of RMB0.1 million, RMB16,000 and RMB2.76 million, respectively, which principally comprised prepayments and deposits, other receivables, and bank and cash balances denominated in RMB.

As of 31 December 2013 and 2014 and as of 30 September 2015, Humen Project Company had non-current assets of nil, nil and RMB3.68 million, respectively, which comprised furniture and fixtures, office equipment, motor vehicle and construction in progress denominated in RMB.

Humen Project Company manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the capital balance. During the Relevant Period, Humen Project Company funded its operations mainly from its share capital and loan.

As at 30 September 2015, Humen Project Company had net liabilities of approximately RMB0.78 million as it had not commenced its business during the Relevant Period.

As of 30 September 2015, Humen Project Company had total current liabilities of approximately RMB7.22 million, comprising approximately RMB6.08 million accruals and other payables in relation to construction costs payable, and approximately RMB1.15 million deposits received from customers.

The Humen Project Company's gearing ratio is calculated as a ratio of total liabilities over total assets. As at 31 December 2013 and 2014 and as at 30 September 2015, the Humen Project Company's gearing ratio was 0, 4.6 and 1.1 respectively.

As at 30 September 2015, Humen Project Company had no borrowing or loan outstanding.

Employment and remuneration policy

As of 31 December 2013, 2014 and 30 September 2015, Humen Project Company had nil, 7 and 12 employees respectively. The employee remuneration was RMB nil, RMB192,000 and RMB530,798 for the period from 30 August 2013 (date of establishment) to 31 December 2013, year ended 31 December 2014 and nine months ended 30 September 2015 respectively. The employee remuneration is determined by reference to the performance, professional experience of the employee and prevailing market conditions. The management will review the employee remuneration policy and package of Humen Project Company on a regular basis. In addition to pension and statutory provident fund, Humen Project Company may provide discretionary bonus to employees with reference to the individual performance.

Contingent liabilities

As of 31 December 2013 and 2014 and as of 30 September 2015, Humen Project Company had no significant contingent liabilities.

Pledge of asset

As of 31 December 2013 and 2014 and as of 30 September 2015, Humen Project Company had no outstanding pledge of assets or other encumbrances.

Foreign currency exposure

Humen Project Company conducts its operations mainly in the PRC and does not engage in any foreign exchange business. The financial statements of Humen Project Company are denominated in RMB. As such, Humen Project Company is not exposed to any significant exchange rate risk and therefore it does not have such hedging policy.

Significant acquisition and disposal

For each of the years ended 31 December 2013 and 2014 and nine months ended 30 September 2015, Humen Project Company did not have any significant acquisition and disposal of subsidiaries, joint ventures and associates.

Significant investment

For each of the years ended 31 December 2013 and 2014 and nine months ended 30 September 2015, Humen Project Company did not have any significant investments.

Future plan

To fulfill the capital investment requirement in relation to the energy saving environmental protection project by distribution of steam and heat to industrial customers in Humen, which is currently to be expected to be approximately RMB328 million, the Group expects that approximately 30% of the capital investment will be from equity capital and approximately 70% of the capital investment will be from other financing means.

Save to the above, Humen Project Company has no plan to make any significant investments or acquire any significant assets.

The Humen Project Company will invest capital to construct pipelines to transmit the energy from the power plant in Dongguan City to industrial enterprises using the natural pressure of steam. Upon completion of the construction of pipelines to the industrial enterprises, the industrial enterprises will install steam flow equipment (meters) to measure steam consumption in tonnes, and the energy will be used in a wide range of industries including food, electronics, pharmaceuticals, papermaking and dyeing. For instance, the papermaking industry can use thermal energy (steam, water) during the process of boiling, stirring and beating pulp.

2. CHANGAN PROJECT COMPANY

Description

Established as company with limited liability in the PRC on 22 July 2015, Changan Project Company is principally engaged in the energy saving environmental protection project by distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in certain areas in Changan Town, the PRC. Prior to the establishment of the WFOE, Changan Project Company was wholly owned by four individuals, namely Mr. Xiang Jun Jie, Mr. Zheng Jia An, Mr. Zhang Shu Kun and Mr. Nie Yu Ping whom, to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, are Independent Third Parties and are independent of and not connected with the Vendor and its associates. As at the Latest Practicable Date, as part of the Reorganisation, the WFOE has been established and all of the equity interests of Changan Project Company have been transferred to the WFOE. Hence, as at the Latest Practicable Date, Mr. Xiang Jun Jie, Mr. Zheng Jia An, Mr. Zhang Shu Kun and Mr. Nie Yu Ping have ceased to be shareholders of Changan Project Company.

Pursuant to the Formal SP Agreement, the Group would acquire 49% of the Target Company, which is an investment holding company which will ultimately hold 80% of Changan Project Company upon completion of the Formal SP Agreement.

Business and Financial Highlights

Revenue

During the Relevant Period, Changan Project Company did not record any revenue as it did not commence nor conduct any business.

Expenses

As Changan Project Company had not conducted any business during the Relevant Period, the only expenses incurred during the time were administrative expenses principally comprised of management remuneration, corporate transportation costs, travel reimbursement, and other operating overheads, which amounted to approximately RMB40,000 during the Relevant Period.

Loss for the period

In consideration of the above reasons, for the period from 22 July 2015 (date of establishment of Changan Project Company) to 30 September 2015, Changan Project Company recorded loss attributable to owners of approximately RMB40,000.

Current and non-current assets, financial condition, capital structure and gearing ratio

As of 30 September 2015, Changan Project Company had no current nor non-current asset and only incurred current liabilities of approximately RMB25,000 in relation to amount due to Humen Project Company and accrued salaries of RMB15,000.

Save to the above, Changan Project Company has no other liability nor borrowing or loan outstanding as at 30 September 2015.

As at 30 September 2015, Changan Project Company had net liabilities of approximately RMB40,000 million as it had not commenced its business during the Relevant Period.

The Changan Project Company's gearing ratio is calculated as a ratio of total liabilities over total assets. The Changan Project Company does not have gearing ratio as it does not have any assets as at 30 September 2015.

Employment and remuneration policy

As of 30 September 2015, Changan Project Company had 3 employees. The employee remuneration was RMB15,000 during the period from 22 July 2015 (date of establishment) to 30 September 2015. The employee remuneration is determined by reference to the performance, professional experience of the employee and prevailing market conditions. The management will review the employee remuneration policy and package of Changan Project Company on a regular basis. In addition to pension and statutory provident fund, Changan Project Company may provide discretionary bonus to employees with reference to the individual performance.

Contingent liabilities

As of 30 September 2015, Changan Project Company had no significant contingent liabilities.

Pledge of asset

As of 30 September 2015, Changan Project Company had no outstanding pledge of assets or other encumbrances.

Foreign currency exposure

Changan Project Company conducts its operations mainly in the PRC and does not engage in any foreign exchange business. The financial statements of Changan Project Company are denominated in RMB. As such, Changan Project Company is not exposed to any significant exchange rate risk and therefore it does not have such hedging policy.

Significant acquisition and disposal

For the period from 22 July 2015 to 30 September 2015, Changan Project Company did not have any significant acquisition and disposal of subsidiaries, joint ventures and associates.

Significant investment

For the period from 22 July 2015 to 30 September 2015, Changan Project Company did not have any significant investments.

Future plan

To fulfill the capital investment requirement in relation to the energy saving environmental protection project by distribution of steam and heat to industrial customers in Changan, which is currently to be expected to be approximately RMB465 million, the Group expects that approximately 30% of the capital investment will be from equity capital and approximately 70% of the capital investment will be from other financing means.

Save to the above, Changan Project Company has no plan to make any significant investments or acquire any significant assets.

The Changan Project Company will invest capital to construct pipelines to transmit the energy from the power plant in Dongguan City to industrial enterprises using the natural pressure of steam. Upon completion of the construction of pipelines to the industrial enterprises, the industrial enterprises will install steam flow equipment (meters) to measure steam consumption in tonnes, and the energy will be used in a wide range of industries including food, electronics, pharmaceuticals, papermaking and dyeing. For instance, the papermaking industry can use thermal energy (steam, water) during the process of boiling, stirring and beating pulp.

3. PROSPECTS OF THE PROJECT COMPANIES

China's energy consumption has been growing at a rapid pace in recent years, driven by progressive economic development, and the government has started to pay increasing attention to energy efficiencies while reducing pollutions.

As mentioned in the "Letter from the Board" to this circular, pursuant to《關於推進我省工業園區和產業集聚區集中供熱的意見》(the "Opinion Relating to Promoting Centralized Heat Supply for the Industrial Parks and Zones in Guangdong Province"*) published by the National Development and Reform Commission of the Guangdong Provincial government in December 2013, Guangdong Provincial government has been promoting the development of industrial parks and zones and the fast growth of centralized heat supply over the past few years. The government plans to further promote centralized heat supply and close down small scale furnaces gradually which is beneficial to the enhancement of energy efficiency and reduction of discharging air pollutants.

In view of the above, when those small scale furnaces are required by the government to close down gradually, industrial customers would have to seek for the relevant energy providers in the area or move to an area that is closer to such providers. The Group considers it a valuable business opportunity to tap into this market at this juncture. The Project Companies were established with an aim to provide users with clean and efficient low-carbon technologies, comprehensive products and related services. The Project Companies will be engaged in energy saving environmental protection projects by distributing steam and heat produced by a power plant in Dongguan City to industrial customers in certain areas in Humen Town and Changan Town respectively.

It is currently expected that the total length of the pipelines to be constructed in each of Humen and Changan for the provision of steam and heat by the Project Companies to industrial customers will be approximately 46 kilometers, and 42 to 58 kilometers, respectively, over a period of about 18 months. The expected aggregate capital expenditure requirement for the construction in Humen and Changan is approximately RMB793 million comprising the cost of construction of the pipelines, road digging fees and other relevant expenses and expenditure, which is expected to be financed by internal resources and bank borrowings. The construction is expected to be completed by around December 2017. The construction will be outsourced to state-owned construction companies that are entitled by the government. Humen Project Company has started to sign the letter of intent with potential customers and to supply steam to customers since the end of 2015. Changan Project Company has not yet commenced business during the reporting period and certain preparatory work and customers visits were being conducted as at the Latest Practicable Date. In the coming period, the services of the Project Companies are expected to deliver in stages with three main priorities: (i) focus on industrial area in Dongguan City; (ii) build the main pipelines of approximately 78.69 kilometers in 2016 and approximately 22.31 kilometers in 2017; and (iii) focus on high polluted furnaces. The service will then further extend to other area based on the market condition in future. and the Company is optimistic to the prospects of the Project Companies.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the Company's independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.

A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

The accompanying unaudited pro forma consolidated statement of financial position of the Enlarged Group (the "Statement") has been prepared to illustrate the effect of the proposed acquisition of 49% equity interest in Ever-Grand Development Limited (the "Target Company") by the Company (the "Acquisition") might have affected the financial position of the Group, assuming the Acquisition had been completed as at 30 June 2015.

The Statement is prepared based on the unaudited condensed consolidated statement of financial position of Cheung Wo International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2015 as extracted from the interim report of the Group for the six months ended 30 June 2015 after making certain pro forma adjustments that are directly attributable to the Acquisition and are factually supported based on the terms of the formal sale and purchase agreement (the "Formal SP Agreement") dated 16 November 2015.

The Group, the Target Company and its subsidiaries (collectively the "Target Group") are together referred to as the "Enlarged Group".

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the Acquisition actually occurred on 30 June 2015. Furthermore, the Statement does not purport to predict the Enlarged Group's future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular, the financial information of the Target Company, Humen Project Company and Changan Project Company as set out in Appendices II and III respectively to this circular and other financial information included elsewhere in this circular.

A. THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT 30 JUNE 2015

	The Group	Pro forma Adjustments	*Note*	The Enlarged Group Adjusted
	HK$'000	*HK$'000*		*HK$'000*
Non-current assets				
Goodwill	–			–
Property, plant and equipment	359,663			359,663
Land use rights	300,579			300,579
Investment property	338,074			338,074
Investments accounted for using the equity method	150,087	1,403,672	*2, 3*	989,637
		(564,122)	*3(d)*	
Prepayments and other receivables	154,877			154,877
Film rights	102			102
	1,303,382	839,550		2,142,932
Current assets				
Properties development in progress	1,120,675			1,120,675
Trade and rental receivables	10,469			10,469
Prepayments and other receivables	320,198			320,198
Contingent consideration receivable	–	391	*2(c)*	391
Tax recoverable	80			80
Cash and cash equivalents	52,807	(60,000)	*2(a), 3(a)*	(7,193)
	1,504,229	(59,609)		1,444,620
Current liabilities				
Trade and land payables	351,964			351,964
Other payables, accruals and deposits received	38,303	5,000	*3(a)*	43,303
Interest-bearing bank and other borrowings	19,779			19,779
Obligations under finance leases	1,323			1,323
	411,369	5,000		416,369
Net current assets	1,092,860	(64,609)		1,028,251
Total assets less current liabilities	2,396,242	774,941		3,171,183

	The Group *HK$'000*	Pro forma Adjustments *HK$'000*	*Note*	The Enlarged Group Adjusted *HK$'000*
Non-current liabilities				
Convertible bonds	–	579,447	*2(b)*	579,447
Deposits received	2,745			2,745
Deferred income tax liabilities	251,638			251,638
Interest-bearing bank and other borrowings	712,963			712,963
Obligations under finance leases	507			507
	967,853	579,447		1,547,300
NET ASSETS	1,428,389	195,494		1,623,883
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY				
Issued capital	15,052			15,052
Share premium	945,997			945,997
Contributed surplus	459,047			459,047
Equity component of convertible bonds	–	759,616	*2(b)*	759,616
Other reserves	127,409			127,409
Accumulated losses	(119,116)	(564,122)		(683,238)
TOTAL EQUITY	1,428,389	195,494		1,623,883

A. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) The financial position of the Group is extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015, without adjustment, as set out in the published interim report of the Company for the six months ended 30 June 2015.

(2) The adjustments represent the consideration of approximately HK$1,403,672,000 payable to Sky-Linked International Limited (the "Vendor") in acquiring 49% equity interest in the Target Company. Details of the transactions were set out in the Company's announcement dated 16 November 2015 and this circular. The consideration will be settled in the following manner:–

(a) HK$60,000,000 in cash; and

(b) The issuance of the convertible notes (the "Convertible Notes") by the Company to the Vendor at an initial conversion price of HK$0.80 per conversion share. The fair values of the liability component and equity component of approximately HK$579,447,000 and HK$759,616,000 respectively were valued by RHL Appraisal Limited as if the Acquisition had taken place on 30 June 2015. The fair value of the liability component of the Convertible Note is estimated by using discount cash flow method, at the discount rate of 10.32%. The equity component of the Convertible Notes is estimated using Binominal Model. The key assumptions used are as follows :

Conversion period start date	30 June 2015
Conversion period end date	31 December 2018
Maturity date	31 December 2018
Time to maturity	3.5 years
Underlying stock price	HK$2.08
Conversion price	HK$0.8
Expected volatility	77.660%
Expected dividend yield	0.000%
Risk-free rate	0.674%
Percentage of principal amount to be repaid at redemption	100%

Upon completion, the fair value of the Convertible Notes will be re-assessed and may be different from the estimated amounts as presented above.

(c) Pursuant to the Formal SP Agreement, the Vendor has guaranteed to the Company that the audited consolidated annual net profit after tax (the "Target Net Profit") will not be less than HK$24,500,000, HK$53,900,000 and HK$112,700,000 (the "Profit Guarantee") for the three years ending 31 December 2016, 2017 and 2018, respectively.

If the Target Net Profit for any of the three relevant years falls below the Profit Guarantee for the relevant year, the Vendor shall pay to the Company on or before 31 May after the end of each relevant year, in the amount being the difference between the Target Net Profit and the Profit Guarantee (the "Amount in Difference") for that year. If the Vendor fails to pay to the Company the Amount in Difference on or before 31 May after the end of each relevant year, the Company shall be entitled to either (i) set-off the Amount in Difference by cancelling the same principal amount of Convertible Notes from those held in escrow for the relevant year. The Company shall return to the Vendor the remaining Convertible Notes held in escrow for the relevant year within 5 business days after such cancellation; or (ii) if the Convertible Notes have been converted into share to be issued by the Company upon exercise by the noteholders of the conversion rights, attaching to the Convertible Notes (the "Conversion Shares"), the Vendor shall irrevocably authorise the Company to sell part of or all of the Conversion Shares at the then market trading price on the Stock Exchange for payment of the Amount in Difference; and the Vendor shall pay the difference between the proceeds of the sold Conversion Shares and the Amount in Difference in cash.

If the Target Net Profit for each of the three years achieves the above guaranteed amount for the relevant year, the Company shall return the Convertible Notes held in escrow, amounting to the relevant amount, to the Vendor on 31 May after the end of the relevant year.

The fair value of contingent consideration receivable of approximately HK$391,000 was valued by RHL Appraisal Limited as if the Acquisition had taken place on 30 June 2015. The fair value was estimated by using discounted cash flow method, at the risk-free rate and discount rate of 0.788% and 10.43% respectively. Upon completion, the fair value of contingent consideration receivable will be re-assessed and may be different from the estimated amounts as presented above.

(3) According to the Formal SP Agreement, the Group proposed to acquire 49% equity interest in the Target Company and will have significant influence over the Target Company upon completion of the Acquisition because the Company will appoint two directors out of the 5 directors of the WFOE. Board decisions will be by simple majority, and the Company does not therefore have control or joint control but the board representation will give it significant influence over the Target Group. The Acquisition is accounted for as acquisition of an associate in accordance with Hong Kong Accounting Standard ("HKAS") 28 "Investments in Associates and Joint Ventures".

	Notes	*HK$'000*
Consideration comprised:		
– Convertible Notes	*2(b)*	1,339,063
– contingent consideration receivable	*2(c)*	(391)
– cash payment	*2(a),3(a)*	60,000
– acquisition-related costs	*3(a)*	5,000
The aggregate amount of the fair value of the consideration		1,403,672

Actual consideration of the Acquisition may be different from the amounts used in this unaudited pro forma financial information of the Enlarged Group because as stipulated in the Formal SP Agreement, the amount of the consideration is subject to adjustments upon fulfillment of various conditions.

	Notes	*HK$'000*
Investments in associates as per above calculation		1,403,672
The Group's 49% interest in 80% share of the fair value of equity of the Target Group as at 30 June 2015	*3(b)*	839,550
Impairment losses	*3(c) & (d)*	(564,122)

As the Acquisition is accounted for as acquisition of an associate under the equity method, as at the date of the acquisition of the Target Company, the financial information of the Target Group would not impact the unaudited pro forma consolidated statement of financial position and therefore not included in the unaudited pro forma consolidated financial information.

(a) Pursuant to the Formal SP Agreement, HK$60,000,000 shall be paid within five business days after the fulfillment of the conditions precedent to the Formal SP Agreement.

The directors confirmed that the cash consideration of the Acquisition will be satisfied by funding from the placement of 175,500,000 ordinary shares of HK$0.01 each (the "Placing Shares") at a placing price of HK$1.14 per Placing Share. The share placement has been completed on 25 November 2015. No adjustment has been made to the unaudited pro forma financial information for the effect of this share placement.

The directors estimated that the acquisition-related costs (including professional fees to legal advisers, financial adviser, reporting accountant, valuer, printer and other expenses) shall be approximately HK$5,000,000.

(b) The Group's 49% interest in 80% share of the fair value of equity of the Target Group represents:

	HK$'000
Total fair value of 100% equity interest of the Target Group	2,461,000
Group's share 49% interest in Target Group's 80% interest in the Project Companies	965,000
Discount for lack of control	(125,450)
Fair value of Group's interest in Target Group	839,550

The Group's 49% interest in 80% share of the fair value of equity of the Target Group as at 30 June 2015 is estimated by reference to the valuation report issued by HASS Natural Resources Limited ("HASS"). The fair value of the Target Group's equity is determined using the Discounted Cash Flow Method under the income approach, which HASS and the directors consider to be the most suitable valuation methodology.

The amount of fair value of the equity of the Target Group is subject to change upon the completion of the valuation of the fair value of the equity of the Target Group on the date of completion of the Acquisition. Consequently, the carrying amount of the investment in the associates and the share of profit or loss of the associates for subsequent periods, will likely result in different amounts than those stated in this unaudited pro forma financial information.

(c) According to HKAS 28, on acquisition of the investment in associates, any excess of the cost of the investment over the investor's share in the fair value of equity is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired.

(d) According to HKAS 28, HKAS 39 "Financial Instruments: Recognition and Measurement", and HKAS 36 "Impairment of Assets", after initial recognition, the entire carrying amount of the investment in associates is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount, whenever there is indicator that the investment in associates may be impaired.

For the purpose of the unaudited pro forma financial information, the Company has ensured the steps taken on the assessment of impairment performed in accordance with HKAS 36. The directors have assessed the impairment of the investment in associates by considering whether the carrying amount of the investment in associates will exceed its recoverable amount, being higher of value in use and fair value less costs to sell, as at 30 June 2015 for the unaudited pro forma consolidated statement of financial position as if the Acquisition had been completed on 30 June 2015. The directors conclude there is an impairment of HK$438,672,000 should be made on the investment in associates.

According to the Formal SP Agreement, part of the considerations in acquiring the Target Group will be settled by Convertible Notes with principal amount of HK$822,000,000. The impairment of the investment in the Target Group is largely due to the significant fair value of the Convertible Notes. The market price of shares of the Company as at 30 June 2015, being the date of acquisition for the purposes of the pro forma statement of financial position and the date the Convertible Notes were valued, was substantially higher than the share price of the Company as at the date of the Formal SP Agreement. The fair value of the Convertible Notes of approximately HK$1,339,063,000 at 30 June 2015 which was estimated by RHL Appraisal Limited reflects the higher market price of shares of the Company at that date.

The Company will adopt consistent accounting policies, valuation method and principal assumptions as used in the unaudited pro forma financial information to assess the impairment of the investment in the Target Company in the future financial periods ends.

In connection with the unaudited pro forma financial information as set out in Appendix V-A, our reporting accountant have conducted their work in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA and their report is set out in Appendix V-B. In reporting on the unaudited pro forma financial information, our reporting accountant considered that the impairment assessment made by the directors has been properly compiled on the basis stated in the unaudited pro forma financial information of the Enlarged Group and the basis is consistent with the accounting policies adopted by the Company.

(4) According to Circular 698 and PN7 of the State Administration of Taxation (the "SAT"), the indirect transfer of 東莞市德晉能源科技有限公司 (Dongguan City Dejin Energy Technology Company Limited) and 東莞市德晉熱力有限公司 (Dongguan City Dejin Thermal Power Company Limited) shall be re-characterized as a direct transfer and subject to PRC Enterprise Income Tax ("EIT"). The Company should act as the EIT withholding agent and report the indirect equity transfer (and settle the EIT) to the tax authority within 30 days after the equity transfer agreement is concluded.

In case the Company fails to fulfill its withholding obligation or the amount withheld is insufficient, the Vendor should make the tax filing (and tax settlement, if applicable) within 7 days of the transaction effective date, and the in-charge tax authority will report the case up to the SAT within 30 days after the tax is paid.

According to Formal SP Agreement, the Vendor is responsible for the filing and the settlement of the EIT arising from the indirect equity transfer in accordance to the relevant PRC tax laws and regulations. The Vendor is also responsible to provide the relevant supporting documents to the Company in respect of the filing of the EIT. The Vendor shall compensate the Company in case the Vendor fails to report and payment of the EIT on the indirect equity transfer.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared on the basis that the Vendor will file and settle the EIT arising from the indirect equity transfer in accordance to the relevant PRC tax laws and regulations. Accordingly, no adjustment is made in this aspect in the Unaudited Pro Forma Financial Information.

(5) No adjustment has been made to the unaudited pro forma financial information to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 June 2015.

(6) The directors assume that the exchange rate of HK$ against RMB used in the unaudited pro forma financial information of the Enlarged Group was RMB1.00 to HK$1.2475. No representation is made that RMB amounts have been, could have been or could be converted into HK$, or vice versa, at that rate or at any other rates or at all.

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN A CIRCULAR

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.

RSM

29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

3 March 2016

To the Directors of
Cheung Wo International Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Cheung Wo International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2015 (the "Statement") and related notes as set out in Appendix V-A of the circular dated 3 March 2016 issued by the Company (the "Circular"). The applicable criteria on the basis of which the directors have compiled the Statement are described in Appendix V-A on pages V-1 to V-8 to the Circular.

The Statement has been compiled by the directors to illustrate the impact of the proposed acquisition of 49% equity interest in Ever-Grand Development Limited (the "Target Company") and its subsidiaries (collectively referred to as the "Target Group") on the Group's financial position as at 30 June 2015 as if the transaction had taken place at 30 June 2015. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's condensed consolidated financial statements as included in the interim report for the six months ended 30 June 2015, on which no audit or review report has been published.

Directors' Responsibility for the Pro Forma Financial Information

The directors are responsible for compiling the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

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

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

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement 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 Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Statement in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of the Statement included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2015 would have been as presented.

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

- The related pro forma adjustments give appropriate effect to those criteria; and

- The Statement reflects the proper application of those adjustments to the unadjusted financial information.

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

The engagement also involves evaluating the overall presentation of the Statement.

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

Opinion

In our opinion:

(a) the Statement has been properly compiled on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
RSM Hong Kong
Certified Public Accountants
Hong Kong

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3 March, 2016

The Directors
Cheung Wo International Holdings Ltd
33 Hysan Avenue
Causeway Bay, Hong Kong

Case Ref: HASS/BV022/OCTOBER 2015

Dear Sirs/Madams,

Re: Appraisal of 49% equity interest in Ever-Grand Development Limited

INSTRUCTIONS

In accordance with the instructions from Cheung Wo International Holdings Ltd (hereinafter referred to as the "Company") to conduct valuation on the equity value of the Environmental Thermoelectric Projects in Dongguan in China (hereinafter referred to as the "Project") held by Ever-Grand Development Limited, a company incorporated in the BVI (hereinafter referred to as the "Business Enterprise"), we are pleased to report that we have made relevant enquiries and obtained other information which we considered relevant for the purpose of providing you with our opinion of the equity value of the Project as at 31 December, 2015 (hereinafter referred to as the "Date of Valuation").

This report states the purpose and basis of valuation, scope of services, economic and industry overview, an overview of the Business Enterprise, major assumptions, valuation methodology and limiting conditions, and presents our opinion of value.

PURPOSE OF THE VALUATION

This report is prepared solely for the use of the directors and management of the Company. The Company is a listed company incorporated in Hong Kong with limited liability. In addition, HASS Natural Resources Limited ("HASS") acknowledges that this report may be made available to the Company for public documentation purpose and will be included in the Company's circular.

Hass Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

SCOPE OF SERVICES

Our valuation conclusion is based on the information provided by the management of the Company, the management of the Business Enterprise and/or its representative(s) (together referred as the "Management").

In preparing this report, we have had discussions with the Management in relation to the development and prospect of the relevant industry in China, the development, operations and other relevant information of the Business Enterprise and the Project. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Business Enterprise and the Project provided to us by the Management and has considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

We do not express an opinion as to whether the actual results of the business operation of the Business Enterprise will approximate those projected because assumptions regarding future events by their nature are not capable of independent substantiation.

In applying these projections to the appraisal of the fair value of the Business Enterprise, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

For this appraisal, based on the financial projections prepared by the Management, we concentrated on the determination of fair value of the Project.

It is our understanding that this valuation will be used for acquisition purpose. No other use of our analysis is intended or inferred and no party other than the Company should refer to the results of our analysis.

Sources of Information

As part of our due diligence, we relied upon documents and information supplied by the Management, including the following:

1. Detailed projected financial forecast for the Project for financial period ending December, 2015 through 2020;

2. Historical audited financial statements for the Project as of 30 September, 2015;

3. Assumptions and basis for revenue projections in the Project's business as detailed by the Management;

4. Revenue and market assumptions of the Project as detailed by the Management;

5. Assumptions and bases for key forecasted data such as average steam consumption by customer, steam purchased, selling expenses and general and administration expenses in the Project as detailed by the Management

This report comprises:

A. This letter, which describes the nature and extent of the valuation analysis, and presents the recommendation of amounts of value.

B. A summary narrative report, which sets forth the purpose and scope of the analysis, the history and nature of the Project and the Company, an economic and industry perspective, a description of valuation theory, a presentation and correlation of the valuation techniques employed, and the estimate of value.

For the purpose of our analysis, the historical data and financial projection were prepared by the Company and have been accepted and relied on, without further verification, as correctly representing the forecasted operating results and financial condition of the Project.

We also reviewed the financial projection of the Project (the "Projection") that was furnished to us by the Management. We assumed that the Projection provided by the Management was prepared with due care and consideration. We are not aware of any condition that caused us to doubt the appropriateness of the bases and assumptions adopted in the Projection.

However, we do not provide assurance on the achievability of the results forecasted 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 the Management.

Conclusion

Based on the information provided and the analysis conducted, it is our recommendation that the fair value of equity of the Project as of 31 December, 2015 is reasonably represented in the amounts of:

HONG KONG DOLLARS
TWO BILLION FOUR HUNDRED AND SIXTY ONE MILLION

Descriptions	Amount
Project	HK$2,461 million

We appreciate the opportunity to be of service and would be pleased to discuss our findings and the methodologies employed. A copy of this report is retained in our files, together with the data from which it was prepared.

Respectfully submitted,

HASS NATURAL RESOURCES LIMITED

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BUSINESS OVERVIEW

Company Overview

Ever-Grand Development Limited, a company incorporated in the BVI is an investment holding company which will ultimately holds 80% equity interest in Dongguan City Dejin Thermal Power Company Limited (東莞市德晉熱力有限公司, a company established in Changan Town, "Changan Project Company"), and Dongguan City Dejin Energy Technology Company Limited (東莞市德晉能源科技有限公司, a company established in Humen Town, "Humen Project Company", and together with Changan Project Company are referred as "Project Companies").

Changan Project Company and Humen Project Company (each a Project Company and collectively referred to as "Project") are a new energy technology company which focuses on low-carbon energy field. It is committed to promoting harmonious and sustainable development of the natural environment and urban development. Besides that, it combines energy conservation technology, optimization design, and creative product development.

The Project is designed to provide users with clean and efficient low-carbon technologies, comprehensive products and related services. Project Companies' principal business is distribution of steam and heat produced by a power plant in Dongguan City to the industrial customers in certain areas in Humen Town and Changan Town.

According to the Management, The Humen Project Company has obtained the approvals from the Dongguan Development & Reform Bureau and is going to construct steam transmission pipelines of approximately 46,000 metres with annual production capacity of approximately 2,300,000 tonnes of steam. The Changan Project Company has been registered with the Dongguan Development & Reform Bureau for construction of steam transmission pipelines of approximately 42,000 metres, with annual production capacity of approximately 4,200,000 tonnes of steam.

The Project conscientiously constructs a resource-saving and environment-friendly society in compliance with the regulations of the government. The company implements the idea of environmental protection and conservation of resources into the company's daily production and operations.

ECONOMIC AND INDUSTRY OVERVIEW

Overview of the Chinese Economy

POLITICAL STABILITY: The president, Xi Jinping, has secured more authority over the ruling Chinese Communist Party (CCP) than anyone since Deng Xiaoping, the country's "paramount leader" between 1978 and 1992. The investigation and subsequent arrest for corruption of a former security tsar, Zhou Yongkang, in December 2014 reflected Mr. Xi's elevated standing. Since the 1980s there had been an understanding that the most senior officials – those who had served, as Mr. Zhou had, on the CCP's top decision-making body, the politburo standing committee (PSC) – would enjoy immunity from disciplinary charges. Mr. Xi's willingness to break this consensus marks a clear departure from the "collective leadership" system maintained under his predecessor, Hu Jintao.

ELECTION WATCH: Following their appointment in 2013, Mr. Xi and the premier, Li Keqiang, are set to serve ten-year terms in office. They will also probably retain until 2022 their positions on the seven-member PSC, in which they are ranked first and second respectively. This puts them in an advantageous position relative to the committee's other current members, who will serve only single terms, retiring in 2017 in accordance with age limits.

INTERNATIONAL RELATIONS: China's increasing power-projection capabilities and its tendency to adopt a bullying approach in territorial disputes will cause unease among its neighbours. Relations between China and Japan have improved since late 2014, with the two nations working more closely to avoid a dangerous escalation of their dispute over the Senkaku islands (known as the Diaoyu islands in China). However, strong nationalist sentiment makes a diplomatic solution unlikely, and bilateral tensions will persist. China's extensive territorial claims in the South China Sea will also encourage countries in the region to develop closer defence relations with the US.

POLICY TRENDS: The leadership's policy agenda will focus on implementing the reforms agreed by the CCP in late 2013 aimed at achieving the overarching goal of reducing government interference in the economy and allowing market forces a "decisive" role in allocating resources. The government hopes that the productivity gains unleashed by these changes will create the conditions necessary for sustainable economic expansion and social stability.

ECONOMIC GROWTH: The pace of economic growth slowed marginally in 2014, to 7.4%, and we expect a further deceleration in 2015, to 7.2%. The impact of falling global oil prices in terms of its cooling effect on inflation will support real household income growth, thereby helping to underpin increases in private consumption. It will also give the People's Bank of China (PBC, the central bank) scope to cut interest rates. Investment growth will continue to slow, moderating from an estimated 7.2% in 2014 to 6.9% in 2015. However, it will be supported by a modest upturn in the property market and by supportive fiscal policy.

INFLATION: A sharp drop in global oil prices will cause average consumer price inflation to slow to 1.2% in 2015, from 2.1% in 2014, owing to the fact that world petroleum prices have a strong influence on local food and transport costs. This will add to the existing downward pressures on inflation stemming from overcapacity in China's industrial and property sectors. We expect annual inflation to accelerate modestly in 2016-19, to 2.8% on average, as excess capacity is curbed through tighter credit policies and as global oil prices rise.

EXCHANGE RATES: The Renminbi is expected to weaken against the US dollar in 2015, depreciating on an annual average basis for the first time since 1994. The government is unlikely to force the currency lower; instead, the trend will be market-driven. China's financial authorities remain committed in the long term to scaling back exchange-rate intervention, as this is tied to policy goals such as rebalancing the economy and internationalizing the Renminbi. We forecast that the currency will rebound in 2016-17, before depreciating again in 2018-19 as the current account moves into deficit. The Renminbi's daily trading band against the US dollar was widened from 1% to 2% in March 2014. Further widening is possible in 2015-19, but the PBC will continue to intervene to smooth volatility, meaning that the full width of the band will rarely be exploited. As the currency's value moves close to a market-determined level in the next five years there will be greater day-to-day volatility, including bouts of depreciation and appreciation.

EXTERNAL SECTOR: We expect China's current account to move from a surplus estimated at the equivalent of 2.1% of GDP in 2014 to a deficit of 0.9% by 2019. Merchandise exports will rise in value terms by 7% a year on average in 2015-19, while imports will grow by 8.9% annually. A growing proportion of imports will be used for domestic consumption, rather than in export-oriented manufacturing.

Sources: Economic Intelligence Unit and National Bureau of Statistics of China

Overview of the Industry

Combined heat and power (CHP), which is also known as cogeneration, has been around for 100 years. It makes common use of a heat engine to produce electricity and thermal heating that can be used by utility consumers or an industrial process. It has quietly been providing highly efficient, reliable power to the nation's most important industries for a long time. In addition to CHP's high efficiency ratings, today's technology offers the flexibility and reliability grid managers need to accommodate growing amounts of variable wind and solar power.

CHP plants recycle the waste heat produced during power production for manufacturing processes and other useful purposes. By capturing and utilizing the excess heat, CHP plants can achieve energy efficiency rates of 75 percent or higher, well above efficiency rates for conventional power stations. What's more, CHP plants offer more reliability because they are independent of the grid. Super storm Sandy struck the East Coast in the US in October 2012. In the aftermath, while thousands of people were left without power from the grid, the lights remained on at college campuses, hospitals and apartment complexes equipped with a CHP system.

The demand for CHP plants is significant for several reasons: Low natural gas prices; rising costs for central power stations; and a need for more resilient and reliable power generation assets. In response to surging demand for power and the need to hit green targets, many Asian states are looking to raise the role for cogeneration in their energy mix.

China's energy consumption has been growing at a frantic pace in recent years, driven by massive and unprecedented economic development, and the government has started to pay increasing attention to energy efficiencies as part of a goal to reduce energy intensity by 20%. Given its substantial needs in energy infrastructure – $30 billion ($38 billion) is invested annually – and low power efficiency, China is receptive to energy efficiency projects with low implementation costs.

In its efforts to hit such targets, China is actively promoting CHP and has now become the world's second-largest country in terms of CHP capacity, which provides more than 18% of nationwide thermal generation capacity. Almost 13% of the nation's electricity and 60% of urban central heating is now generated with CHP.

Most of this capacity is coal-fired, serving municipal heating systems and energy intensive industries. It mainly consists of mid-sized or small heat plants and boilers as until quite recently large power plants in China would only very rarely implement CHP projects.

China is estimated to have tapped into less than 20% of its industrial CHP potential. The National Development and Reform Commission has set a goal of 200 GW of CHP by 2020 – which, based on current projections, would exceed a fifth of installed power capacity. And these cogeneration targets are under pinned by detailed energy policies in China's 12th Five-Year Plan for Energy Development, which runs from 2011 to 2015.

These aims and agreements are important because it is the gas-fired arena that offers the most enticing and realizable cogeneration opportunities, particularly for foreign equipment suppliers. Foreign manufacturers also set to benefit. And with the new administration in place, all these energy policies are starting to translate into action.

Besides that, in recent years, The Global Environment Facility (GEF) has invested more than $100 million in distributed energy, including on-site power production and cogeneration in China's industrial sector, as well as several projects in distributed power and heat from biomass. Investments of this type should help to accelerate the growth of distributed energy and cogeneration. Capital and tax incentives from sources such as The World Bank are also helping to make the numbers add up, while rising electricity tariffs and increased natural gas availability due to pipeline extensions are also making new investments more feasible. Foreign investors are also lining up to get in on the act.

While ambitious the target is eminently reachable. Opportunities for CHP growth abound. China has a large district heating sector that has traditionally relied on heat-only boilers rather than on more efficient and less polluting CHP. Compared with other countries, China also has a low share of CHP in both electricity and heat production, which brings opportunities for CHP to access grids for greater reliability and to expand grid-based cogeneration via policies and incentives.

Yet several factors have slowed adoption of distributed energy and cogeneration strategies. High coal and gas prices coupled with artificially low electricity tariffs exacerbate the economic challenges of specific projects. Continuing government control and slow energy industry liberalization create regulatory uncertainty within the electricity sector. Suspicions of technology dependability and maintain-ability still exist.

GENERAL VALUATION OVERVIEW

Valuation Process

Traditionally, the development of a fair value recommendation is based on the consideration of three basic approaches to value: the Income Approach, the Cost Approach, and the Market Approach. Value indications derived through one or more of these approaches are then analyzed in order to formulate an objective recommendation as to the market value of the equity interest under valuation.

Income Approach

The Income Approach focuses on the income-producing capability of a business or asset. The Income Approach measures the current value of a business or asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as of the valuation date.

Market Approach

The Market Approach measures the value of a business or asset through an analysis of recent sales or offerings of comparable businesses or assets. Adjustments are made to account for differences between the subject business and asset being valued and the comparable businesses or assets used in the analysis.

Cost Approach

The Cost Approach measures the value of a business or asset by the cost to reconstruct or replace it with another of like utility. To the extent that the assets being valued provide less utility than new assets, the reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional obsolescence, and economic obsolescence. The Cost Approach recognizes that a prudent investor would not ordinarily pay more for property or an asset than the cost to replace them new.

Selected Approach

We selected the Income Approach to value the fair value of the Project. Our basis for selecting the Income Approach was due to the availability of relevant data, specifically the financial projections provided by Management.

We reviewed the financial projection and assumed that the projection provided by the Management was prepared with due care and consideration. We are not aware of any condition that caused us to doubt the appropriateness of the bases and assumptions adopted in the Projection. However, we do not provide assurance on the achievability of the results forecasted by the Project. Based on this information, we utilized a discounted cash flow methodology to derive the recommendation of fair value.

The Market Approach was not deemed appropriate due to the limited operating history of the Project and difference in development stage from the selected comparables.

The Cost Approach was also deemed inappropriate, as this approach is more common in valuing tangible assets while the subject under this appraisal is a business with potential earnings power.

BUSINESS ENTERPRISE VALUE ANALYSIS

Discounted Cash Flow Method – Major Assumptions

Management provided us with 6-year projections of the Project including revenue, expenses, working capital needs, and capital expenditures for the valuation.

The estimates for operating expenses were assumed to be on a standalone basis, assuming market based assumptions for all salaries, benefits, and other assumptions. We discussed the risks of achieving these projections and the overall reasonableness of the assumptions with the management. These risks were also considered in our selection of various valuation related assumptions (e.g. discount rate). We considered the impact of each valuation-related assumption individually, and the related impact on our overall valuation conclusions.

Although the information and assumptions used in the cash flow projections are a reasonable basis for valuation purposes, our analysis and use of them do not constitute an examination or compilation of prospective financial information.

Revenue Assumptions

Refer to 6-year projection provided by the Management, for the fiscal year ending 31 December 2016, revenue not including Value-added tax (VAT) for the Project was RMB583.43 million, In 2017, 2018, 2019 and 2020, revenue was projected to increase to RMB1,755.28 million, RMB1,948.11 million, RMB2,130.84 million and RMB2,323.67 million respectively. And the tax rate of the Value-added tax (VAT) is 13% accordingly.

Changan Project

Unit: RMB10,000

	2015	2016*	2017	2018	2019	2020
Revenue (net of VAT)	–	36,023.69	112,482.06	122,587.52	131,682.43	141,787.89
Revenue (incl. VAT)	0.00	40,706.77	127,104.73	138,523.90	148,801.15	160,220.32
Average steam consumption by customer (Ton/hour)		307.33	671.75	732.10	786.41	846.76
Annual Consumption hour per customer		8,640	8,640	8,640	8,640	8,640
Selling price (incl. VAT) (RMB/Ton)		219	219	219	219	219

* *Adjusted for annualization factor of 0.7 in the first year of operation*

Average selling price is by reference to terms of contracts signed with customers by Humen Project Company. Annual consumption hour per customer is estimated by the Management by multiplying number of hours per day (24) and 365 and adjusted for estimated time which the customers may not consume due to its own production schedule.

Average steam consumption by customer is estimated by the Management and is based on forecasted consumption per customer. According to the Management, the bases for the forecasts are estimated historical steam consumption and forecasted customer growth.

	2016	**2017**	**2018**	**2019**	**2020**
YoY change in average consumption per customer (Ton/hour)	323.51	383.59	71.00	63.90	71.00
Average steam consumption by customer (Ton/hour) before adjusting for 0.95 utilization factor	323.51	707.10	778.10	842.00	913.00
Average steam consumption by customer (Ton/hour)	307.33	671.75	732.10	786.41	846.76

Humen Project

Unit: RMB10,000

	2015	**2016***	**2017**	**2018**	**2019**	**2020**
Revenue (net of VAT)	0.00	22,319.52	63,046.27	72,223.73	81,401.20	90,578.66
Revenue (incl. VAT)	0.00	25,221.06	71,242.28	81,612.82	91,983.35	102,353.89
Average steam consumption by customer (Ton/hour)		190.42	376.51	431.32	486.13	540.94
Annual Consumption hour per customer		8,640	8,640	8,640	8,640	8,640
Selling price (incl. VAT) (RMB/Ton)		219	219	219	219	219

* *Adjusted for annualization factor of 0.7 in the first year of operation*

Average selling price is based on contracts signed with customers and is subject to change in accordance with the price of coal and will be reviewed on quarterly basis. Annual consumption hour per customer is estimated by the Management by multiplying number of hours per day (24) and 365 and adjusted for estimated time which the customers may not consume due to its own production schedule.

Average steam consumption by customer is estimated by the Management and is based on forecasted consumption per customer. According to the Management, the bases for the forecasts are estimated historical steam consumption and forecasted customer growth.

	2015	**2016**	**2017**	**2018**	**2019**	**2020**
YoY change in average consumption per customer (Ton/hour)	18.22	182.22	195.89	84.32	84.32	84.32
Average steam consumption by customer (Ton/hour) before adjusting for 0.95 utilization factor		200.44	396.33	480.65	564.97	649.29
Average steam consumption by customer (Ton/hour)		190.42	376.51	431.32	486.13	540.94

The following table summarizes the forecasted steam sold for the period 2016 to 2020:

Steam sold (Unit: 10,000 Ton)

	2016	**2017**	**2018**	**2019**	**2020**
Changan	185.88	580.39	632.53	679.46	731.60
Humen	115.16	325.31	372.66	420.02	467.37

We were advised by the Management that the annual steam production capacity is currently at 4.2 million tons per annum and 2.3 million tons per annum for Changan and Humen respectively and can be revised in accordance to the demand and it is government policy to encourage industrial users in the area to convert to using steam as source of heating.

Cost of Goods Sold

Cost of goods sold ("COGS") not including Value-added tax (VAT) was RMB389.8 million in year ending December 31, 2016. In 2017, 2018, 2019 and 2020, COGS was projected to increase to RMB1,172.72 million, RMB1,301.55 million, RMB1,423.63million and RMB1,552.46 million respectively. And the tax rate of the value-added tax (VAT) is assumed to be 13% accordingly.

Changan

Unit: RMB10,000

	2015	2016	2017	2018	2019	2020
COGS (net of VAT)	0.00	24,067.74	75,150.23	81,901.78	87,978.17	94,729.71
COGS (incl. VAT)	0.00	27,196.54	84,919.76	92,549.01	99,415.33	107,044.58
Actual steam purchased (Ton/hour)		323.51	707.10	770.63	827.80	891.33
Average purchase cost (RMB/Ton)		139	139	139	139	139

Average purchase cost is by reference to terms of a supply contract signed by Humen Project Company with a power plant in Shajiao, Dongguan City in September 2015 and annual percentage change in actual steam purchased is assumed to be same as that of revenue.

Humen

Unit: RMB10,000

	2015	2016	2017	2018	2019	2020
COGS (net of VAT)	0.00	14,911.86	42,121.75	48,253.30	54,384.84	60,516.39
COGS (incl. VAT)	0.00	16,850.41	47,597.58	54,526.23	61,454.87	68,383.52
Actual steam purchase (Ton/hour)		200.44	396.33	454.02	511.72	569.41
Average purchase cost (RMB/Ton)		139	139	139	139	139

Average purchase cost is based on a supply contract signed with a power plant in Shajiao, Dongguan City in September 2015 and annual percentage change in actual steam purchased is assumed to be same as that of revenue.

Tax additives

It mainly refers to various tax surcharges and additives as listed below,

- Embankment protection fee is assumed to be 0.072% of revenue (net of VAT);
- City maintenance construction additive is assumed to be 5% of output VAT;
- Local education additive is assumed to be 2% of output VAT, and
- Education fee additive is assumed to be 3% of output VAT.

Selling Expense Assumptions

Selling expenses for the Project were assumed to be 0.25% of revenue (incl. VAT) and projected to be approximately RMB1.65 million, RMB4.96 million, RMB5.50 million, RMB6.02 million and RMB6.56 million for year ending 31 December, 2016, 2017, 2018, 2019 and 2020 respectively. It is based on internal forecast adopted by the Management. Based on discussion with the Management, customers are industrial or manufacturing companies in the area and it is the government policy to further promote centralized heat supply, therefore the competition is relatively weak and costs for acquisition of customers should be relatively low.

General Administration Expense Assumptions

General administration expenses for the Project were projected to be approximately RMB1.17 million, RMB5.94 million, RMB17.92 million RMB19.17 million, RMB20.21 million and RMB21.47 million for financial year ending 31 December, 2015, 2016, 2017, 2018, 2019 and 2020 respectively.

General Administration expense comprises of pipeline maintenance expenses and administrative expenses.

1. Pipeline maintenance expense is assumed to be 0.5% of revenue (incl. VAT) starting from 2017.

2. Administrative expense assumptions from Management adopted in our calculation is illustrated in the following table,

Changan

Unit: RMB10,000

	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Salary and wages	0.00	186.00	276.00	284.28	284.28	292.81
Entertainment	0.00	42.00	30.00	30.00	30.00	30.00
Rental	0.00	19.20	28.80	28.80	28.80	28.80
Office expenses	0.00	9.00	15.00	15.00	15.00	15.00
Insurance	0.00	25.89	29.91	29.91	29.91	29.91
Total	**0.00**	**282.09**	**379.71**	**387.99**	**387.99**	**396.52**

Humen

Unit: RMB10,000

	2015	2016	2017	2018	2019	2020
Salary and wages	62.00	186.00	276.00	284.28	284.28	292.81
Entertainment	14.00	42.00	30.00	30.00	30.00	30.00
Rental	16.00	48.00	72.00	72.00	72.00	72.00
Office expenses	3.00	9.00	15.00	15.00	15.00	15.00
Insurance	21.63	26.63	27.51	27.51	27.51	27.51
Total	**116.63**	**311.63**	**420.51**	**428.79**	**428.79**	**437.32**

Based on discussion with the Management, Salary and wages is estimated based on projected headcounts (15 in 2016 and 30 thereafter for each Project Company). Entertainment expenses is based on Management estimate of RMB35,000 per month in 2016 and RMB25,000 per month thereafter. Rental mainly refers to office rental expenses and is assumed to increase by 50% in 2017 when the construction completes and staff number increases. Insurance relates to the premium for public liability insurance, property all risks and employer liability insurance.

Depreciation

Depreciation refers to depreciation associated with the fixed assets of the Project and the asset is assumed to be deprecated over 30 years with a salvage value of 5% of cost.

Unit: RMB10,000

Years ended 31 December				2015F	2016F (Projected)	2017F (Projected)	2018F (Projected)	2019F (Projected)	2020F (Projected)
Total Depreciation and Amortization				–	(974)	(2,511)	(2,511)	(2,511)	(2,511)
As % of revenue					-1.7%	-1.4%	-1.3%	-1.2%	-1.1%
Depreciation Schedule									
Changan					–	–	–	–	–
New CAPEX	**Investment for the year**	**Depr life**	**Salvage Value**						
2015	-	30	5%		–	–	–	–	–
2016	(28,615)	30	5%		(906)	(906)	(906)	(906)	(906)
2017	(17,885)	30	5%		–	(566)	(566)	(566)	(566)
2018	-	30	5%		–	–	–	–	–
2019	-	30	5%		–	–	–	–	–
2020	-	30	5%		–	–	–	–	–
					(906)	(1,472)	(1,472)	(1,472)	(1,472)
Humen									
New CAPEX	**Investment for the year**	**Depr life**	**Salvage Value**						
2015	(2,139)	30	5%		(68)	(68)	(68)	(68)	(68)
2016	(30,661)	30	5%		–	(971)	(971)	(971)	(971)
2017	-	30	5%		–	–	–	–	–
2018	-	30	5%		–	–	–	–	–
2019	-	30	5%		–	–	–	–	–
2020	-	30	5%		–	–	–	–	–
					(68)	(1,039)	(1,039)	(1,039)	(1,039)

Changes in Net Working Capital (NWC)

The working capital requirements are projected by the Management based on working capital needs. Net working capital as % of revenue is assumed to be around -6% of revenue throughout the projection period.

According to the Management, customers will pay in advance therefore we assume no accounts receivable while payable turnover day is assumed to be 30 days. It is calculated by summing up the COGS, Selling expenses and General and Administration expenses and annualized over 365 days.

Unit: RMB10,000

Years ended 31 December	2015F	2016F (Projected)	2017F (Projected)	2018F (Projected)	2019F (Projected)	2020F (Projected)
Net Working Capital ("**NWC**")	–	(3,266)	(9,827)	(10,901)	(11,917)	(12,990)
As % of revenue		-6%	-6%	-6%	-6%	-6%
Working capital incremental	–	(3,266)	(6,561)	(1,074)	(1,016)	(1,074)
As % of revenue		-6%	-4%	-1%	0%	0%
Payables turnover days		30	30	30	30	30
Payables balance	–	3,266	9,827	10,901	11,917	12,990
Working capital requirement	–	(3,266)	(9,827)	(10,901)	(11,917)	(12,990)

Capital Expenditures ("CAPEX")

Capital expenditures were projected by Management. Throughout the projection period, the investment cost of the Project was estimated by Management and it is assumed to amount to RMB21.39 million, RMB592.76 million and RMB178.85 million in year 2015, 2016 and 2017 respectively.

Details of the CAPEX assumed by the Management,

Unit: RMB10,000

Changan **New CAPEX**	**Investment for the year**
2015	–
2016	(28,615)
2017	(17,885)
2018	–
2019	–
2020	–

Humen **New CAPEX**	**Investment for the year**
2015	(2,139)
2016	(30,661)
2017	–
2018	–
2019	–
2020	–

Terminal Value

The terminal value of the Project was calculated using the constant growth model, in which the final year's cash flows were adjusted to a normalized level, and the growth was expected to remain at a constant rate into perpetuity. Constant growth method was utilized to develop the estimate of the terminal value:

$$\text{Terminal Value} = \frac{\text{Normalized Free Cash Flow to Invested Capital} * (1 + \text{Constant Growth Rate})}{\text{Discount Rate} - \text{Constant Growth Rate}}$$

Based on discussions with the Management and the general economic and industry trend forecasts, a long-term growth rate was estimated at 3 percent. The free cash flow for one period after the fiscal year 2020 was calculated to be RMB559 million and using a capitalization rate of 15 percent (the discount rate less the constant growth rate) the terminal value was determined to be RMB3,733 million. The terminal value was then discounted back to present value to arrive at a final terminal value of RMB1,771 million (at present value). Details of the calculation is illustrated below,

Unit: RMB10,000

Terminal Value Method – Constant Growth		
Free Cash Flow to Invested Capital		54,364
Constant Growth Rate	x	3.0%
FCF IC, One Period after	=	55,995
Capitalization Rate	/	15.0%
Terminal Value as of end of terminal year	=	373,302
Present Value Period		4.50
Present Value Factor	x	0.47
Present Value of Terminal Value	**=**	**177,172**

DETERMINATION OF THE DISCOUNT RATE

Capital Asset Pricing Model

The Income Approach specifically requires the use of a risk-adjusted discount rate. The discount rate, which is employed to convert future cash flows to their present value equivalent, is the rate of return expected by an investor and is related to the perceived risk of an investment. Although risk is a term used to cover a wide range of business situations, it can best be analyzed in three frameworks: the financial structure of the business, the industry environment, and the economic conditions within which a business operates. Risk is thus characterized as financial risk, business risk, and market risk.

The weighted average cost of capital ("WACC") is the appropriate discount rate to apply to cash flows available to both debt and equity holders in our invested capital analysis. This rate is the expected return on total invested capital.

The following formula was used for calculating the weighted average cost of capital for the Project:

WACC = (ke * we) + [(kd * (1-t)) * wd]

Financial risk refers to the capital structure of a business and the percentage of debt-to-total capital (debt plus equity). Business risk refers to lack of market acceptability, inferior service, overpricing, inefficient operations, etc. Market risk is reflected by overall economic conditions, such as inflation, interest rates, etc. Business risk, financial risk, and market risk must be considered in developing the components of the weighted-average cost of capital.

Discount Rate

Cost of Equity

The appropriate discount rate depends upon the cash flows that are being discounted. In discounting equity cash flows, the appropriate discount rate is the cost of equity capital which is developed using the Capital Asset Pricing Model ("CAPM"), its application is outlined as follows:

Equity rate of return = Rf + ERP (Beta) + CSR

Where,

Rf = The risk-free rate, the yield on long term government bonds of with respective countries of comparable companies as of the Valuation Date. 10-year Chinese Sovereign bond yield of 2.83% as of the valuation date is adopted in the calculation.

ERP = The market risk premium is the expected return on a diversified, market-weighted portfolio of common stocks less the expected return on a long-term risk-free bond. The market risk premium is based on consideration of both historical and forward-looking evidence of investors' expectations and was extracted from Bloomberg. As the Project business is principally domiciled in China, we adopted the China stock market risk premium in our calculation. According to Bloomberg, the long-horizon China market risk premium was about 10.23 percent as of valuation date.

Beta = Beta is a measure of relative risk associated with an investment in a particular company as compared to the risk associated with an investment in a diversified portfolio of common stocks such as the S&P 500. For example, investing in a company with a beta of 1.10 means that the investment is 10.0 percent more risky than an investment in a diversified portfolio. Information of betas is available only for publicly traded companies. We reviewed the betas of the following guideline companies which are principally engaged in similar business,

Comparable company	**Stock Code**	**Levered beta**
Tianjin Binhai Energy & Development Co. Ltd.	000695 CH	1.09
Shenyang Huitian Thermal Power Co., Ltd.	000692 CH	1.31
Liaoning Hongyang Energy Resources Invest Co. Ltd	600758 CH	1.08
Shijiazhuang Dongfang Energy Co., Ltd.	000958 CH	1.18
Zhejiang Fuchunjiang Environmental Thermoelectric Co. Ltd	002479 CH	1.13

to ascertain a proxy for an industry beta. Once the industry average beta was estimated, the beta was relevered to reflect the target debt-to-equity ratio as estimated based on the capital structures of the guideline companies. Based on the observed average capital structure of the guideline companies, a capital structure of 91 percent equity was adopted for the calculation of the relevered betas for the guideline companies.

SSR = Smaller companies will tend to generate greater returns to compensate the investors for the higher risk involved. Small capitalization stocks have had both greater risk and greater returns than large capitalization stocks. In other words, as an asset class, small capitalization stocks are riskier than large capitalization stocks, but also have provided greater returns. Investors have generally been rewarded for taking the additional risk inherent in small stocks. Ibbotson Associates measures and publishes annually the small stock premium observed in US stock markets. This refers to the small stock premium. 3.74 percent, which is the size premium published for Micro-cap decile in 2015, was applied which is extracted from 2015 Ibbotson SBBI Classic Yearbook. SSR from 2015 Ibbotson SBBI Classic Yearbook is referred to because it is a leading study which directly estimates the stock return in excess of CAPM based on stock market data, and the cost of equity in this valuation engagement is also developed by CAPM. Therefore we adopted the published SSR in adjusting for the size of the valuation subject during the course of development of the cost of equity in the context of CAPM.

CSR = This represents additional risk factors inherent in the company's operating unit. Company specific premium was based upon our view of the additional risks associated with an investment. A company specific risk premium of 1 percent was applied since the distribution network is still under construction.

We searched guideline companies from Bloomberg and details of the search criteria in the selection process is described below,

1. Exchange listing: China

2. Product segment keyword: District heating

3. Trading status on valuation date: Normal

4. District heating revenue contribution: greater than 40% of total revenue or being the largest revenue contributor

Guideline company	**Company description**
Tianjin Binhai Energy & Development Co. Ltd.	Tianjin Binhai Energy & Development Co., Ltd. mainly engages in electrical power generation and heat generation.
Shenyang Huitian Thermal Power Co., Ltd.	Shenyang Huitian Thermal Power Co., Ltd. operates in city centralized heat supply business and provides heating engineering services. The company also develops and manages in real estate properties.
Liaoning Hongyang Energy Resources Invest Co. Ltd	Liaoning Hongyang Energy Resource Invest Co., Ltd. mainly engages in the production and supply of electric power, steam and hot water.
Shijiazhuang Dongfang Energy Co., Ltd.	Shijiazhuang Dongfang Energy Company Ltd. generates and distributes electric power. The company also supplies heat in the Shijiazhuang City and undertakes related construction projects.
Zhejiang Fuchunjiang Environmental Thermoelectric Co. Ltd	Zhejiang Fuchunjiang Environmental Thermoelectric Co., Ltd. operates the business of solid waste power generation and thermal power generation. The company engages in the co-generation of heat and power with its main products including steam and electricity.

Source: Bloomberg

We searched for the guideline companies on a "best effort" basis. First of all, the principal business of the Project Companies is district heating. The default business classification available for search in the Bloomberg terminal that is closest to the business segment of the Project is "District Heating and Cooling". Therefore, we searched for comparables in this business segment with revenue greater than zero. This ensures that the prospective guideline company population does, at least, engage in the same business as the Project Companies i.e. district heating. However our search results indicated that all the potential guideline companies do, more or less, have conducted other business segments.

Therefore, unless stated otherwise, we chose only those guideline companies with district heating accounted for most of their revenue contribution. By doing so, we believed those guideline companies do reflect the risk of that particular single business segment of the Project Companies. The table below summarized the revenue contribution of heat and steam distribution business of the selected guideline companies.

	Revenue contributed by heat and steam distribution business *(Note 1 and 2)*		
Guideline companies	**FY2012**	**FY2013**	**FY2014**
000695 CH	93.3%	92.7%	93.9%
000692 CH *(Note 2)*	82.1%	86.9%	86.7%
600758 CH	54.5%	50.6%	57.5%
000958 CH	53.8%	51.5%	42.0%
002479 CH *(Note 1)*	56.1%	51.1%	52.1%

Note:

1. All percentages above represented the percentages of total revenue that were contributed by the distribution or sale of steam and heat by the guideline companies except for 002479 CH which percentages represented gross profit contribution. Gross profit contribution was considered for this company because, according to Bloomberg data, this company started coal trading business from 2012 but the gross profit contribution from coal trading business was low while district heating accounted for the largest contribution in gross profit. Prior to 2012, the largest revenue contributor of 002479 CH was sale of steam.

2. 000692 CH revenue contribution percentage of total revenue also includes gas distribution per its segment information classification adopted in its public filings. No further breakdown is available.

By applying CAPM based on the inputs discussed above, the cost of equity for the company was calculated to be about 19.45 percent as of the Valuation Date.

Cost of Debt

Estimating the cost of debt was based upon a review of market rates of interest bearing debt, market rates for investment grade debt as of the Valuation Date and discussions with the Management regarding lending costs for companies with the same or similar risk profile as the Project. Based on discussion with Management and indicative bank quote furnished to us by the Management, the estimated cost of borrowing of the Project is assumed to be 1.2x of People's Bank of China promulgated long-term (five year or above) borrowing rate as of the valuation date, i.e. 4.9% x 1.2 or about 5.88 percent p.a..

Based upon the above factors, we utilized a pre-tax cost of debt of 5.88 percent and after adjusting for the statutory PRC income tax rate of 25 percent, the after-tax cost of debt was determined to be 4.4 percent p.a..

Calculation of the WACC

Where,

ke	=	The cost of common equity capital is 19.45 percent, as calculated using the CAPM method described above.
kd	=	After tax cost of debt capital is estimated to be 4.4 percent as of the Valuation Date based upon the prevailing borrowing rate.
we	=	Capital structure of the company was estimated to be 91 percent equity and 9 percent debt based on average of guideline companies.
wd	=	Capital structure of the company was estimated to be 91 percent equity and 9 percent debt based on average of guideline companies.
T	=	An effective tax rate of 25 percent was utilized.

Concluded Discount Rate

Based on our calculations of the discount rate using a CAPM, we concluded that the appropriate discount rate for the Project was 18 percent (rounded).

RECOMMENDATION OF VALUE

Based on the information provided and the analysis conducted, and subject to the attached Statement of General Assumptions and Limiting Conditions and Certification, it is our recommendation that the Fair Value of the Project as of 31 December, 2015, is reasonably represented in the amount of:

HONG KONG DOLLARS
TWO BILLION FOUR HUNDRED AND SIXTY ONE MILLION

Descriptions	Amount
Project	HK$2,461 million

We appreciate the opportunity to be of service and would be pleased to discuss our findings and the methodologies employed.

Sensitivity analysis

1. Discount rate

The following table depicts a sensitivity analysis of the discount rate on the value of Project,

Unit: RMB10,000

	Discount rate				
Discount rate	16%	17%	18%	19%	20%
Fair Value	295,617	269,065	246,127	226,120	208,527

2. Revenue

The following table depicts a sensitivity analysis of synchronized change in revenue and COGS on the value of Project,

Unit: RMB10,000

	Change in revenue and COGS from original Management projection				
Across the board change	-10%	-5%	0%	5%	10%
Fair Value	213,563	229,844	246,127	262,407	278,689

The Fair Value

According to the discounted cash flow, the fair value of 49 percent interest in 80% equity interest in the Project is therefore approximately HK$965 million as of the Valuation Date.

MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- The Business Enterprise have free and uninterrupted rights to operate the Project throughout the period;
- The Business Enterprise are entitled to dispose of, transfer and assign freely the interests in the Project without payment of any premium to the governments;
- The Business Enterprise can be freely disposed of and transferred free from all encumbrances for its existing or approved uses in the market to purchasers;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Business Enterprise operates or intends to operate would be officially obtained, and renewed upon expiry;

- There will be sufficient supply of technical staff in the industry in which the Business Enterprise operates, and the Business Enterprise will retain competent management, key personnel and technical staff to support its ongoing operation and development;

- The Business Enterprise will successfully develop the Project as planned;

- The Business Enterprise has adopted reasonable and necessary security measures and has considered contingency plans against any disruption (such as fire, change of government policy, labour dispute, implementation of statutory safety measures, and other types of unexpected accident or natural disasters of catastrophes) to the scheduled operations;

- There will be no major changes in the current taxation laws in the localities in which the Business Enterprise operates or intends to operate. The rates of tax payable shall remain unchanged and all applicable laws and regulations will be complied with;

- There will be no major changes in the political, legal, economic or financial conditions in the localities in which the Business Enterprise operates or intends to operate, which would adversely affect the revenues attributable to and the profitability of the Business Enterprise; and

- Interest rates and exchange rates in the localities for the operation of the Business Enterprise will not differ materially from those presently prevailed.

LIMITING CONDITIONS

The valuation reflects the facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions. To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided by the Management and the Project in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We have not investigated the title to or any legal liabilities of the Project and have assumed no responsibility for the title to the Project appraised. We would particularly point out that our appraisal was based on the information such as company background, business nature, market share, future prospecting and in particular the cash flow projections of the Project provided to us.

Our conclusion of the fair value is derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. We assume no responsibility whatsoever to any person other than the directors and management of the Project in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely on their own risk.

REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Hong Kong Dollars (HK$) or Chinese Yuan (RMB).

Our conclusion of value is based on generally accepted valuation procedures and practices and rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company.

We hereby confirm that we have neither present nor prospective interests in the Project, the Company, the Business Enterprise and their holding companies, subsidiaries and associated companies, or the values reported herein.

OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, the market value of 49 percent interest in 80% share of Project as at the Valuation Date, in our opinion, is reasonably stated as HK$965,000,000 (HONG KONG DOLLARS NINE HUNDRED AND SIXTY FIVE MILLION ONLY).

Yours faithfully,
For and on behalf of
HASS Natural Resources Limited
Herman Tso
AEE, IACVA
Director

Note:

Herman has over 20 years of valuation experiences in Hong Kong. Previous valuation engagement experiences include merger and acquisition and financial reporting purpose valuation for public companies listed in Hong Kong and subject asses appraised include intangible assets, business and natural resources. Herman is the members of the Association of Energy Engineers, the International Association of Consultants, Valuators & Analysts and the member of the American Institute of Certified Public Accountants. He is the Chartered Professional member of the Institute of Materials, Minerals and Mining (UK).

HASS Group comprises of HASS Capital Limited and HASS Natural Resources Limited. HASS Group is a well-established firm engaged in the provision of valuation and technical advisory. We are one of the leading service providers in Hong Kong with principal clients being companies listed on the Hong Kong Stock Exchange.

Our dynamic & experienced professional team is committed to deliver credible, professional and the highest quality services to our clients. HASS Group is your strategic partner of choice. We help you making the most reliable, informed and insightful corporate decisions.

Our Services:

Natural Resources Valuation and Technical Advisory Services

- Exploration Planning
- Project Feasibility Studies
- Resource Estimation
- Evaluation
- Environmental & Social Services
- Risk Management

Business & Intangible Assets Valuation

Financial Instruments Valuation

Property Valuation

Machineries & Equipment Valuation

RSM

29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

3 March 2016

INDEPENDENT ASSURANCE REPORT OF CALCULATIONS OF VALUATION OF 49% EQUITY INTEREST IN EVER-GRAND DEVELOPMENT LIMITED

To the Board of Directors of
Cheung Wo International Holdings Limited

Dear Sirs,

We have examined the calculations of the discounted future estimated cash flows of 東莞市德晉熱力有限公司 (Dongguan City Dejin Thermal Power Company Limited*) and 東莞市德晉能源科技有限公司 (Dongguan City Dejin Energy Technology Company Limited*) on which the valuation prepared by Hass Natural Resources Limited dated 3 March 2016 of 49% equity interests in Ever-Grand Development Limited (the "Target Company") as at 31 December 2015 (the "Valuation") is based. The Valuation, based on the discounted future estimated cash flows, is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and will be included in a circular to be issued by Cheung Wo International Holdings Limited (the "Company") dated 3 March 2016 (the "Circular").

Responsibilities of directors for the discounted estimated future 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 as set out in Appendix VI of the Circular (the "Assumptions"). 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.

Our Independence and Quality Control

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

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

Responsibilities of RSM Hong Kong

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by 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. We are not reporting on the appropriateness and validity of the Assumptions on which the Valuation is based and our work does not constitute any valuation of the Target Company.

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. 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 estimate cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the Assumptions.

Because the Valuation relates to the discounted estimated future cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from those used in the Valuation and the variation may be material. Accordingly we have not reviewed, considered or conducted any work on the completeness, reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

In our opinion, based on the foregoing, 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 Assumptions made by the directors of the Company.

Yours faithfully,
RSM Hong Kong
Certified Public Accountants
Hong Kong

The following is the text of a letter, prepared for inclusion in this circular, received by the Board from Kingston Corporate Finance Limited in connection with the projection underlying the Valuation Report.

KINGSTON CORPORATE FINANCE

Suite 2801, 28th Floor
One International Finance Centre
1 Harbour View Street, Central, Hong Kong

3 March 2016

The Board of Directors
Cheung Wo International Holdings Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION SALE AND PURCHASE AGREEMENT IN RELATION TO THE ACQUISITION – VALUATION OF THE BUSINESS OF THE EVER-GRAND DEVELOPMENT LIMITED AND ITS SUBSIDIARIES ("TARGET GROUP")

Unless defined otherwise, capitalised terms used in this letter shall have the same meaning as ascribed to them in the circular of Cheung Wo International Holdings Limited ("**Company**", together with its subsidiaries the "**Group**") dated 3 March 2016 ("**Circular**").

We refer to the projection of the future cashflows of 東莞市德晉熱力有限公司 (Dongguan City Dejin Thermal Power Company Limited*) and 東莞市德晉能源科技有限公司 (Dongguan City Dejin Energy Technology Company Limited*) (collectively referred as the "**Project Companies**"), which were prepared on a discounted cash flow basis provided by the management of the Group, underlying the valuation report prepared by HASS Natural Resources Limited ("**Valuer**") in relation to the valuation of the business of the Target Group ("**Valuation**") as detailed in Appendix VI to the Circular. The Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

The Valuation, for which the directors of the Company (the "**Directors**") are solely responsible, has been prepared based on, among other things, the projection of the future cashflows of the Project Companies from 2015 to 2020 provided by the management of the Group ("**Profit Forecast**").

We have reviewed the Profit Forecast upon which the Valuation has been made and discussed with you on the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 3 March 2016 addressed to you from RSM Hong Kong ("**RSM**") regarding its opinion on the discounted future estimated cash flows of the valuation is based which, so far as the calculations are concerned, have been properly compiled in accordance with the bases and assumptions determined by the Directors in the Valuation.

On the basis of the foregoing and on the bases and assumptions made by you and the calculations adopted by you and reviewed by RSM, we have formed the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry. However, we express no opinion on whether the actual cash flows would eventually be achieved in correspondence with the Profit Forecast. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Our work in connection with the Profit Forecast has been undertaken solely for the strict compliance with Rule 14.61 of the Listing Rules and for no other purposes.

Yours faithfully,
Kingston Corporate Finance Limited
Gregory Ho
Managing Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), were as follows:

Long positions in the underlying Shares

As at the Latest Practicable Date, the Directors had personal interests in the share options granted by the Company under the share option scheme adopted by the Company on 2 September 2013 as follows:

Name of Director	Date of grant	Exercisable period	Exercise price per share option *HK$*	Number of share options outstanding	Approximate percentage of interest in the issued share capital of the Company
Ms. Law Kee, Alice	5.11.2013	5.11.2013 to 4.11.2023	0.94	11,116,038	0.66%

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the

Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders' interests and short positions in the shares and underlying shares of the Company or any associated corporation

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

Interests of the substantial Shareholders in the Shares and the underlying Shares

Name of Shareholder	Capacity	Number of Shares held/Number of underlying Shares held under equity interest	Approximate percentage of interest in the issued share capital of the Company
Cheng Ngok Fai *(Note 1)*	Interest of controlled corporation	1,027,500,000(L)	61.07%
Connected-World Group Limited *(Notes 1 and 3)*	Interest of controlled corporation	1,027,500,000(L)	61.07%
Li Ruiguang *(Note 2)*	Interest of controlled corporation	1,027,500,000(L)	61.07%
Eternal Galaxy Group Limited *(Notes 2 and 3)*	Interest of controlled corporation	1,027,500,000(L)	61.07%
Sky-Linked International Limited *(Note 3)*	Beneficial owner	1,027,500,000(L)	61.07%
Central Huijin Investment Limited *(Note 4)*	Interest of controlled corporation	1,024,582,341(L)	60.90%
China Construction Bank Corporation *(Note 4)*	Interest of controlled corporation	1,024,582,341(L)	60.90%
Cheng Keung Fai *(Note 5)*	Interest of controlled corporation	938,309,250(L) 149,809,676(S)	55.77%(L) 8.90%(S)
Full Dragon Group Limited *(Note 5)*	Beneficial owner	938,309,250(L) 149,809,676(S)	55.77%(L) 8.90%(S)
Yue Chak Ming *(Note 6)*	Beneficial owner	159,492,814(L)	9.48%

Notes:

1. The entire issued share capital of Connected-World Group Limited is owned by Mr. Cheng Ngok Fai.

2. The entire issued share capital of Eternal Galaxy Group Limited is owned by Mr. Li Ruiguang.

3. The entire issued share capital of Sky-Linked International Limited is owned as to 60% by Connected-World Group Limited and 40% by Eternal Galaxy Group Limited. Sky-Linked International Limited was deemed to be interested in 1,027,500,000 Shares which fall to be allotted and issued by the Company following the exercise of the conversion rights attached to the Convertible Notes (assuming full conversion of the Convertible Notes).

4. Approximately 57.31% of the entire issued share capital of China Construction Bank Corporation is owned by Central Huijin Investment Limited. The interests in such Shares are held by Sea Venture Investments Limited which is an indirect wholly-owned subsidiary of China Construction Bank Corporation.

5. The entire issued share capital of Full Dragon Group Limited is owned by Mr. Cheng Keung Fai. Full Dragon Group Limited has granted (i) a security interest over 58.39% of the total issued share capital of the Company as at the date of the grant and (ii) a call option to acquire 149,809,676 Shares of the total issued share capital of the Company, to a subsidiary of Central Huijin Investment Limited, details of which were disclosed in the announcement of the Company dated 4 May 2015.

6. According to the form of disclosure of interests dated 7 August 2015, Mr. Yue Chak Ming was interested in 159,492,814 Shares/underlying Shares in the capacity as the beneficial owner, 133,000,000 of which were underlying Shares.

7. The letter "L" denotes the person's long position in such Shares and the underlying Shares.

8. The letter "S" denotes the person's short position in such Shares.

Save as disclosed above, so far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

3. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, save as disclosed above, the Directors are not aware that any of them or any of their close associates had interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would fall to be disclosable under the Listing Rules.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group that does not expire or is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2014, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

6. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors was materially interested, either directly or indirectly, in any contract or arrangement subsisting at the date of this circular and which was significant in relation to the business of the Group.

7. MATERIAL ADVERSE CHANGE

The Directors confirm that save as disclosed below, there had been no material change in the financial or trading position or outlook of the Company since 31 December 2014, being the date to which the latest audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date:

(i) the Company published a profit warning statement on 11 August 2015, which stated that based on the preliminary review of the unaudited consolidated assessment of the unaudited consolidated management accounts for the six months ended 30 June 2015, the Group was expected to record a consolidated net loss attributable to the owners of the Company of approximately HK$30.1 million as compared with net profit attributable to owners of the Company of approximately HK$4.0 million for the corresponding period in 2014. The major reasons were attributable to: (i) the Company had benefited from recognising part of the compensation income arising from the box-office takings and distribution of the movie "Monkey King" of approximately HK$14.1 million and recorded it in the corresponding period in 2014, which was not recurrent in the corresponding period in 2015; (ii) the accrued finance costs of approximately HK$13.5 million in relation to the loan notes which were issued in January 2015; and (iii) the enlarged operating loss sustained from the property and hotel development business; and

(ii) for the six months ended 30 June 2015, the Group recorded unaudited loss attributable to the owners of the Group of approximately HK$30.2 million as compared with profit attributable to the owners of the Group of approximately HK$4.0 million for the six months ended 30 June 2014. The major reasons were attributable to: (i) the Company had benefited from recognising part of the compensation income arising from the box-office takings and distribution of the movie "Monkey King" of approximately HK$14.1 million and recorded it in the corresponding period in 2014, which was not recurrent in the corresponding period in 2015; (ii) the accrued finance costs of approximately HK$13.5 million in relation to the loan notes which were issued in January 2015; and (iii) the enlarged operating loss sustained from the property and hotel development business.

8. EXPERTS' QUALIFICATIONS AND CONSENTS

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

Name	Qualifications
Kingston Corporate Finance Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Titan Financial Services Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
HASS Natural Resources Limited	independent valuer
RSM Hong Kong	Certified Public Accountants

As at the Latest Practicable Date, each of Kingston Corporate Finance Limited, Titan Financial Services Limited, HASS Natural Resources Limited and RSM Hong Kong did not have any shareholding, direct or indirect, in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in the Group, nor did it have any interest, direct or indirect, in any assets which had, since 31 December 2014, being the date up to which the latest published audited financial statements of the Group were made, been acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group.

Each of Kingston Corporate Finance Limited, Titan Financial Services Limited, HASS Natural Resources Limited and RSM Hong Kong has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name included herein in the form and context in which it appears.

9. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, have been entered into by the members of the Group within two years immediately preceding the Latest Practicable Date and which are or may be material:

(i) the supplemental agreement dated 10 February 2014 entered into between the Company as issuer, Mr. Cheng Keung Fai as guarantor and Sunny Glory Investments Limited ("**Sunny Glory**") as subscriber, which was supplemental to the subscription agreement (the "**2013 Subscription Agreement**") dated 18 September 2013 in relation to the subscription by Sunny Glory Investments Limited of the 20.00% guaranteed secured notes in the combined amount of up to a maximum principal amount of USD80,000,000;

(ii) the placing agreement dated 24 February 2014 entered into between the Company as issuer and the GF Securities (Hong Kong) Brokerage Limited ("**GF Securities**") as placing agent, pursuant to which the Company appointed GF Securities as its placing agent to procure not less than six placee(s) who will be Independent Third Parties to subscribe up to 214,200,000 placing shares at a price of HK$0.56 per placing share on a best effort basis on the terms and subject to the conditions of the placing agreement;

(iii) the amended and restated subscription agreement (the "**Amended and Restated Subscription Agreement**") dated 15 March 2014 entered into the Company as issuer, Mr. Cheng Keung Fai as guarantor and Sunny Glory as subscriber which replaces and supersedes the 2013 Subscription Agreement;

(iv) the non-legally binding memorandum of understanding dated 18 March 2014 entered into among the Company, Guangdong Huanghe Industrial Group Shanghai Real Estate Limited (廣東黃河實業集團上海房地產有限公司), InfraRed NF Investment Advisers Limited (滙貫南豐投資管理有限公司), G2 Whale Capital Group Limited (G2滙鯨資本集團有限公司) and Mr. Cheng Keung Fai in respect of the proposed cooperation in development the Sheshan property development project, which is located in Shanghai, PRC;

(v) the subscription agreement dated 2 April 2014 entered into among Elite State Developments Limited ("**Elite State**"), a wholly-owned subsidiary of the Company, as subscriber, G2 Whale Real Estate Development (China) Limited and Broad World Holdings Limited (博世控股有限公司) ("**Broad World**") as issuer, pursuant to which Elite State has conditionally agreed to subscribe for and Broad World has conditionally agreed to issue and allot the subscription shares to Elite State at a subscription price of HK$120,000,000, which shall be satisfied by way of cash by tranches;

(vi) the supplemental agreement to the Amended and Restated Subscription Agreement dated 9 May 2014 entered into the Company as issuer, Mr. Cheng Keung Fai as guarantor and Sunny Glory as subscriber, pursuant to which the parties agree to extend the first tranche closing date in the Amended and Restated Subscription Agreement;

(vii) the subscription agreement dated 10 December 2014 entered into among the Company as issuer, Krystal Light Investment Limited ("**Krystal Light**") as subscriber and Mr. Cheng Keung Fai as guarantor, pursuant to which, subject to fulfillment of conditions precedent, Krystal Light has agreed to subscribe for and the Company has agreed to issue the 20.00% guaranteed secured notes in an aggregate principal amount of USD20,000,000;

(viii) the placing agreement dated 27 May 2015 (the "**Placing Agreement**") entered into between the Company as issuer and GF Securities as placing agent, pursuant to which the Company appointed GF Securities as its placing agent, on a best effort basis, to procure not less than six placee(s) who will be Independent Third Parties to subscribe for up to 265,000,000 warrants at the issue price of HK$0.057 per warrant conferring the rights to subscribe for up to an aggregate of 265,000,000 warrant shares at the subscription price of HK$0.68 (subject to adjustment) per warrant share;

(ix) the supplemental agreement to the Placing Agreement dated 12 June 2015 entered into between the Company as issuer and GF Securities as placing agent, pursuant to which, the parties agree to amend the certain terms of the warrant to clarify the adjustment mechanism to the warrants in the case of share consolidation and share subdivision;

(x) the non-legally binding memorandum of understanding dated 3 August 2015 entered into between the Company as purchaser and Energetic Force Investments Limited ("**Energetic Force**") as vendor, in relation to the possible acquisition by the Company from Energetic Force of the entire issued share capital of Greater Elite Investments Limited;

(xi) the subscription agreement (the "**2015 Subscription Agreement**") dated 12 August 2015 entered into among the Company as issuer, Taiping Trustees Limited ("**Taiping Trustees**") as subscriber and Mr. Cheng Keung Fai as guarantor, pursuant to which, subject to fulfillment of conditions precedent, Taiping Trustees has agreed to subscribe for the convertible notes in the principal amount of US$30,000,000;

(xii) the Memorandum;

(xiii) the placing agreement dated 6 November 2015 entered into between the Company as issuer and Kingston Securities Limited ("**Kingston Securities**") as placing agent, pursuant to which the Company has conditionally agreed to place through Kingston Securities, on a best effort basis, up to 175,500,000 placing shares at the placing price of HK$1.14 per placing share to not fewer than six placees who and whose beneficial owners shall be Independent Third Parties;

(xiv) the Formal SP Agreement;

(xv) the subscription agreement dated 17 December 2015 entered into between Prosper China Limited ("**Prosper China**"), a wholly-owned subsidiary of the Company, as investor, and GLC S.S. GP Limited, the general partner of GLC Special Situations Fund L.P. (the "**Fund**"), a Cayman Islands exempted limited partnership registered under the Exempted Limited Partnership Law (as amended) of the Cayman Islands, pursuant to which Prosper China agrees to subscribe for an interest in the Fund as a limited partner in accordance with the terms of the amended and restated limited partnership agreement dated 14 December 2015 with a capital commitment of HK$110 million;

(xvi) the non-legally binding memorandum of understanding dated 15 December 2015 entered into between the Company as purchaser and Mr. Cheng Keung Fai as vendor in relation to the possible acquisition(s) by the Company from Mr. Cheng Keung Fai of not less than 40% equity interest in the companies (either directly or indirectly) owned by Mr. Cheng Keung Fai and being engaging in the operation of two five-star resorts and hotels in the PRC;

(xvii) the supplemental agreement to the 2015 Subscription Agreement dated 28 December 2015 entered into between the Company as issuer, Taiping Trustees as subscriber and Mr. Cheng Keung Fai as guarantor to confirm their agreement to extend the long stop date of the 2015 Subscription Agreement;

(xviii) the non-legally binding memorandum of understanding dated 4 January 2016 entered into between the Company and 福建乾暉股權投資中心(有限合夥)(Fujian Qianhui Equity Investment Centre (Limited Partnership)*) ("**Fujian Qianhui**") setting out the preliminary understanding in relation to the possible acquisition by the Company from Fujian Qianhui of approximately 7.04% of the entire equity interest in 天津股權交易所有限公司 (Tianjin Equity Exchange Enterprise Limited*), a limited partnership enterprise incorporated in the PRC, at the consideration of approximately RMB22,528,000 which shall be subject to arm's length negotiations between the Company and Fujin Qianhui; and

(xix) the Supplemental Agreement.

10. LITIGATION

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

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Room 4101, 41/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong on weekdays (Saturdays and public holidays excepted) up to and including the date of the SGM:

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

(b) this circular;

(c) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;

(d) the letter from the Independent Financial Adviser, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;

(e) the accountant's report of the Target Company, the text of which is set out in Appendix II to this circular;

(f) the accountant's report of Humen Project Company, the text of which is set out in Appendix III to this circular;

(g) the accountant's report of Changan Project Company, the text of which is set out in Appendix III to this circular;

(h) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;

(i) the valuation report of the business of the Target Group, the text of which is set out in Appendix VI to this circular;

(j) the letter from RSM Hong Kong regarding the valuation report, the text of which is set out in Appendix VII to this circular;

(k) the letter from Kingston Corporate Finance Limited regarding the valuation report, the text of which is set out in Appendix VIII to this circular;

(l) the written consents referred to in the paragraph headed "8. Experts' Qualifications and Consents" in this appendix;

(m) the annual reports of the Company for the last two financial years ended 31 December 2013 and 2014; and

(n) the material contracts referred in the paragraph headed "9. Material Contracts" in this appendix.

12. CORPORATE INFORMATION

(a) The company secretary of the Company is Mr. Chan Chun Fat. He is a solicitor of the High Court of the Hong Kong.

(b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company is at Room 4101, 41/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

(c) The principal share registrar and transfer office of the Company is MUFG Fund Services (Bermuda) Limited, at the Belvedeve Building, 69 Pitts Bexy Road, Pembroke MH08, Bermuda. The branch share registrar and transfer office of the Company is Tricor Standard Limited, Level 22, Hopwell Centre, 183 Queen's Road East, Hong Kong.

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

CHEUNG WO INTERNATIONAL HOLDINGS LIMITED
長和國際實業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00009)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (the "**SGM**") of Cheung Wo International Holdings Limited (the "**Company**") will be held at Room 4101, 41/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong on Monday, 21 March 2016 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendment, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the sale and purchase agreement dated 16 November 2015 and as supplemented by the supplemental agreement dated 17 February 2016 (the "**Formal SP Agreement**") entered into among the Company, Sky-Linked International Limited (the "**Vendor**"), Mr. Cheng Ngok Fai and Mr. Li Ruiguang (the "**Guarantors**") in relation to the acquisition of 49% of the entire issued share capital of Ever-Grand Development Limited (the "**Target Company**") by the Company at an aggregate consideration of HK$882,000,000 of which (i) HK$60,000,000 shall be satisfied by cash; and (ii) HK$822,000,000 shall be satisfied by issuing convertible notes (the "**Convertible Notes**") in the same principal amount to the Vendor (or its nominee(s)), entitling the holder(s) thereof to convert the principal amount into ordinary shares of the Company (the "**Conversion Shares**") at the conversion price of HK$0.8 per Conversion Share (a copy of the Formal SP Agreement marked as "A" is tabled at the meeting and signed by the Chairman of the meeting for the purpose of identification) and transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

(b) the creation and issue of the Convertible Notes in accordance with the terms and conditions of the Formal SP Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(c) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in the Conversion Shares, the directors of the Company (the "**Directors**") be and are hereby granted a specific mandate (the "**Specific Mandate**") to allot, issue, credited as fully paid, the Conversion Shares to the Vendor pursuant to the Formal SP Agreement, provided that the Specific Mandate shall be in

* *For identification purpose only*

addition to and shall not prejudice nor revoke the general mandate proposed to be granted to the Directors by the shareholders of the Company in the annual general meeting of the Company held on 11 June 2015 or such other general or specific mandate(s) which may from time to time be granted to the Directors prior to or after the passing of this resolution; and

(d) all other transactions contemplated under the Formal SP Agreement be and are hereby approved and the Directors be and are authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions the Directors consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Formal SP Agreement, the issue of the Convertible Notes and the allotment and issue of the Conversion Shares and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole."

By order of the Board
Cheung Wo International Holdings Limited
HUI WAI LEE, WILLY
Chairman

Hong Kong, 3 March 2016

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

Principal place of business in Hong Kong:
Room 4101, 41st Floor
Lee Garden One,
33 Hysan Avenue,
Causeway Bay, Hong Kong

Notes:

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the SGM is enclosed herewith. Whether or not you intend to attend the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.

3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.

4. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, then one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

5. The resolution is to be voted by way of poll.

As at the date of this notice, the Board comprises eight Directors, of which the executive Directors are Mr. Hui Wai Lee, Willy (Chairman), Ms. Law Kee, Alice (Chief Executive Officer), Mr. Tai Yat Chung, Mr. Li Wenjun and Mr. Zhong Yingchang; and the independent non-executive Directors are Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chiu Sin Nang, Kenny.