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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in China Assets (Holdings) Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**CHINA ASSETS (HOLDINGS) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 170)**

**NEW AGREEMENT SUPPLEMENTAL TO  
AMENDED INVESTMENT MANAGEMENT AGREEMENT  
— CONTINUING CONNECTED TRANSACTION  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent financial adviser to the Independent Board Committee and  
the Independent Shareholders**

**SUNWAH** KINGSWAY  
**新華滙富**

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A notice convening the Extraordinary General Meeting of China Assets (Holdings) Limited to be held at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong on 28 December, 2012 at 3 p.m. is set out on pages 100 to 101 of this circular. A form of proxy is also enclosed.

Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the office of the Company at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting. Completion of a form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting (or any adjournment thereof) in person if you so wish.

7 December, 2012

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## DEFINITIONS

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

|   |   |
|---|---|
| “Amended Investment Management Agreement” | an agreement for the management of the investments of the Company entered into by the Company and the Manager on 28 March, 1991, as from time to time amended;  |
| “Articles of Association”                 | the Articles of Association of the Company;   |
| “associate”                               | the meaning ascribed thereto in the Listing Rules;  |
| “Board”                                   | the board of Directors of the Company;  |
| “Business Day”                            | a day (other than a Saturday) on which banks in Hong Kong are open for business;  |
| “Companies Ordinance”                     | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);  |
| “Company” and “China Assets”              | China Assets (Holdings) Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 170);  |
| “continuing connected transaction”        | the meaning ascribed to that term in the Listing Rules;   |
| “Director(s)”                             | the director(s) of the Company;   |
| “Extraordinary General Meeting”           | the extraordinary general meeting of the Company to be held at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong on 28 December, 2012 at 3 p.m., notice of which is set out on pages 100 to 101 of this circular;                           |
| “First Shanghai”                          | First Shanghai Investments Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 227), the controlling shareholder of the Company for the purposes of the Listing Rules; |

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## DEFINITIONS

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|-------------------------------|--|
| “First Shanghai Group”        | First Shanghai, its subsidiaries, jointly controlled entities and associated companies;  |
| “Group”                       | China Assets (Holdings) Limited, its subsidiaries and associated companies;  |
| “HK\$”                        | Hong Kong dollars;   |
| “Hong Kong”                   | the Hong Kong Special Administrative Region of the PRC;  |
| “HSI”                         | the Hang Seng Index published and compiled by Hang Seng Indexes Company Limited pursuant to a licence from Hang Seng Data Services Limited. The mark(s) and name(s) “Hang Seng Index” are proprietary to Hang Seng Data Services Limited;  |
| “Independent Board Committee” | an independent committee of the board of Directors comprising Mr. Fan Jia Yan, Mr. Wu Ming Yu and Dr. David William Maguire, being all the independent non-executive Directors, which has been established to advise the Independent Shareholders in respect of the New Supplemental Agreement, and its renewals and the proposed annual caps on remuneration of the Manager and high-watermark; |
| “Independent Shareholders”    | holders of Shares that are not required under the Listing Rules to abstain from voting to approve the Amended Investment Management Agreement at the Extraordinary General Meeting;  |
| “Latest Practicable Date”     | 4 December, 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information to be contained herein;  |
| “Listing Rules”               | the Rules Governing the Listing of Securities on the Stock Exchange;   |

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## DEFINITIONS

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|------------------------------|--|
| “Manager”                    | China Assets Investment Management Limited, a company incorporated in Hong Kong with limited liability and a connected person of the Company for the purposes of the Listing Rules;  |
| “Net Asset Value” or “NAV”   | the consolidated US dollar value of all assets of the Group less all liabilities of the Group, except where otherwise stated;  |
| “Net Assets”                 | the Net Asset Value of the Company computed by using the monthly weighted average thereof;   |
| “Net Capital Gains”          | the proceeds of disposals of investments of the Company less (i) all direct associated expenses, (ii) the relevant book costs of such investments excluding any revaluation or provision for accounting purposes, and (iii) any capital losses previously realized including losses incurred on the write-off of investments considered to be of nil or negligible value, and not previously offset against any Net Capital Gains; |
| “New Supplemental Agreement” | an agreement dated 25 September, 2012 between the Manager and the Company which, amongst other things, amended the Amended Investment Management Agreement;  |
| “NPAT”                       | the net profit of the Company after tax, determined by reference to the annual audited accounts of the Company, provided that capital gains on the investments of the Company, whether realized or unrealized, shall not be taken into account to determine NPAT;  |
| “PRC”                        | the People’s Republic of China;  |
| “Quarter Day”                | 31 March, 30 June, 30 September and 31 December in each year or, where such a day is not a Business Day, the immediately preceding day which is a Business Day;  |
| “RMB”                        | Renminbi, the lawful currency of the PRC;  |

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## DEFINITIONS

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|-------------------------|--|
| “Return on Net Assets”  | the ratio (expressed as a percentage) of the NPAT to the Net Assets;     |
| “SFO”                   | the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong; |
| “Share(s)”              | share(s) of US\$0.10 each in the share capital of the Company;           |
| “Shareholder(s)”        | holders of Shares;   |
| “Stock Exchange”        | The Stock Exchange of Hong Kong Limited;                                 |
| “subsidiary”            | the meaning ascribed thereto in the Listing Rules;                       |
| “Takeovers Code”        | the Hong Kong Code on Takeovers and Mergers;                             |
| “US Dollars” and “US\$” | dollars of the United States of America.                                 |

*Note:*

Sums expressed in Hong Kong dollars in this circular have been translated into United States dollars, and vice versa, at the rate HK\$7.78 = US\$1.00.

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LETTER FROM THE BOARD OF DIRECTORS

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**CHINA ASSETS (HOLDINGS) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 170)**

***Board of Directors:***

*Executive Directors*

Mr. Lo Yuen Yat

Ms. Lao Yuan Yuan

*Non-executive Directors*

Mr. Jiang Wei

Mr. Yeung Wai Kin

Mr. Zhao Yu Qiao

*Independent Non-executive Directors*

Mr. Fan Jia Yan

Mr. Wu Ming Yu

Dr. David William Maguire

***Registered Office***

19th Floor

Wing On House

71 Des Voeux Road Central

Hong Kong

7 December, 2012

*To the Shareholders*

Dear Sir or Madam,

**NEW AGREEMENT SUPPLEMENTAL TO  
AMENDED INVESTMENT MANAGEMENT AGREEMENT  
— CONTINUING CONNECTED TRANSACTION  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

On 26 September 2012, the Company announced that it had entered into the New Supplemental Agreement.

The purpose of this circular is to provide you with, among other things, details of the New Supplemental Agreement, the letter of advice from Kingsway Capital Limited which has been appointed independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the New

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## LETTER FROM THE BOARD OF DIRECTORS

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Supplemental Agreement including the proposed high watermarks referred to below and annual caps on remuneration of the Manager are fair and reasonable, the recommendation of the Independent Board Committee to the Independent Shareholders and notice of the Extraordinary General Meeting.

### **AMENDED INVESTMENT MANAGEMENT AGREEMENT**

The Company entered into a management agreement on 28 March, 1991 with the Manager, for provision of management and advisory services to the Company. That management agreement (with amendments made on 8 April, 1992 as a result of which it became the Amended Investment Management Agreement) was made in compliance with the then applicable requirements of the Listing Rules on listing of the Company on the Stock Exchange as an investment company.

Key terms of the various renewals and amendments of the Amended Investment Management Agreement made since 28 March, 1991 are set out below.

On 11 October, 2004 the Amended Investment Management Agreement was amended on the same commercial terms so that it would continue until 31 December, 2006 and subsequently be renewed for further terms of 2 years each provided that the requirements of the Listing Rules are complied with before renewal. The Amended Investment Management Agreement may be terminated by a party by serving not less than six months' written notice to the other party. The Company is required to have the approval of its shareholders before giving such a notice. It was renewed again on 31 December, 2006, 31 December, 2008 and 31 December, 2010, in each case for a further term of two years, but approval of the Company's shareholders was not obtained. The Company complied with Rule 14A.37 and other Listing Rules relevant to these agreements in the year 2004 and 2005, save as disclosed in this circular, and might not have complied with Rule 14A.38.

When it was renewed with effect from 31 December, 2006, further renewed with effect from 31 December, 2008 and further renewed with effect from 31 December, 2010 the Amended Investment Management Agreement was renewed on the same commercial terms as those in the original agreement.

Where shareholder approval for given caps has not been sought, the Company will comply (to the extent relevant) with Listing Rules 14A.37, 14A.38 and 14A.39 for the year ending 31 December, 2012. It is to be expected that the auditors confirmation under Listing Rule 14A.38 will be modified to note that fact.



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## LETTER FROM THE BOARD OF DIRECTORS

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### *Breach of relevant Listing Rules*

By reason of Listing Rule 14A.47, the Company should have amongst other things notified the Stock Exchange as soon as possible after the terms of the transaction were agreed, and published an announcement in accordance with Listing Rule 2.07C as soon as possible;

By reason of Listing Rule 14A.19, the Company was required to comply with the independent shareholders' approval requirements set out in Listing Rules 14A.52 to 14A.54 and contents requirements for the announcement and circular set out in Listing Rules 14A.56 and 14A.58 to 14A.60 respectively.

By reason of Listing Rule 14A.21, the Company was required to comply with the requirements set out in Listing Rules 13.39(6) and 13.39(7) and Listing Rule 14A.22. These include appointing an independent board committee to advise independent shareholders and sending a circular to shareholders including a separate letter from an independent financial adviser giving an opinion on the relevant agreements and setting out so far as relevant:

- (1) the reasons for the opinion;
- (2) the key assumptions made;
- (3) the factors taken into consideration in forming that opinion;
- (4) a statement as to whether the agreement is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the listed issuer and its shareholders as a whole; and
- (5) advice from the independent financial adviser to the independent board committee and independent shareholders on whether independent shareholders should vote in favour of the transaction.

By reason of Listing Rule 14A.35, the Company should have amongst other things:

- (1) in the relevant agreement with the Manager, set a maximum aggregate annual value ("cap"), the basis of which must be disclosed and determined by reference to previous transactions and figures which are readily ascertainable from published information of the Company. If there are no previous transactions, the cap must be made based on reasonable assumptions, details of which must be disclosed;
- (2) complied with the independent shareholders' approval requirements described in Listing Rule 14A.48; and
- (3) Complied with the reporting and announcement requirements described in Listing Rules 14A.45 to 14A.47.

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## LETTER FROM THE BOARD OF DIRECTORS

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Listing Rule 14A.48 required the Company to:—

- (1) comply with Listing Rules 14A.45 or 14A.46 and 14A.47; and
- (2) comply with the requirements set out in Listing Rules 14A.49 to 14A.54.

By reason of Listing Rule 14A.49, the Company was required amongst other things to send a circular, which complied with Listing Rules 14A.58 to 14A.62, to Shareholders.

By reason of Listing Rule 14A.52, the transaction and the cap should have been made conditional on approval by independent Shareholders.

The Company failed to comply with the requirements summarised above, except Listing Rules 14A.45 and 14A.46, in respect of the renewals of the Amended Investment Management Agreement on 31 December, 2006, 31 December, 2008 and 31 December, 2010 and was accordingly in breach of the Listing Rules mentioned above.

### *Breach of continuing obligations under Listing Rules*

Under Listing Rule 14A.37, each year the independent non-executive Directors of the Company must review the relevant agreements and confirm in the annual report and accounts that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Company;
- (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available from independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

By reason of Listing Rules 14A.45 and 14A.46 the following details must be included in the Company's published annual report and accounts for the financial years during which the Company undertakes the relevant transaction:

- (1) the transaction date;
- (2) the parties to the transaction and a description of their connected relationship;
- (3) a brief description of the transaction and its purpose;
- (4) the total consideration and terms (including, where relevant, interest rates, length of repayment and security); and
- (5) the nature and extent of the connected person's interest in the transaction.

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## LETTER FROM THE BOARD OF DIRECTORS

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By reason of Listing Rule 14A.38, in each year the Company's auditors must provide a letter to the Company's Directors (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming so far as relevant, that the continuing connected transactions:

- (1) have received the approval of the Board;
- (2) have been entered into in accordance with the relevant agreement governing the transaction; and
- (3) have not exceeded the cap disclosed in previous announcement(s).

Where shareholder approval for given caps has not been sought, it is to be expected that the auditors confirmation will be modified to note that fact. Under Listing Rule 14A.39, the Company's Directors must state in the annual report whether the Company's auditors have confirmed the matters stated in Listing Rule 14A.38.

Save for Listing Rules 14A.45 and 14A.46, with which it complied in every relevant year, the Company did not comply with the requirements summarised above in respect of the renewals of the Amended Investment Management Agreement on 31 December, 2006, 31 December, 2008 and 31 December, 2010.

The Company's failure to comply strictly with the relevant Listing Rules was due to an oversight. The Company overlooked the fact that Listing Rule 21.13 is to the effect that for the purposes of Rule 14A.13, any investment manager, investment adviser or custodian (or any connected person thereof) is regarded as a connected person of an issuer (such as the Company) listed under Chapter 21 of the Listing Rules and that the Manager is therefore regarded as a connected person of the Company for the purposes of Listing Rule 14A.13.

On 15 September, 2011, the Company and the Manager entered into a second supplemental agreement, supplemental to the Amended Investment Management Agreement, under which they agreed to extend the term of the Amended Investment Management Agreement so that it runs for a further three years from 1 January, 2011 to 31 December, 2013 and that the total annual remuneration payable to the Manager under the Amended Investment Management Agreement for specified periods will not exceed the agreed maximum amounts.

On 27 April, 2012, the Company and the Manager entered into a third supplemental agreement, supplemental to the Amended Investment Management Agreement, under which they agreed, amongst other things, the high watermarks referred to below.

The second and third supplemental agreements and their changes to the Amended Investment Management Agreement were subject to Independent Shareholders' approval which was not sought or obtained, and were both terminated by the New Supplemental Agreement.

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## LETTER FROM THE BOARD OF DIRECTORS

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The Company has adopted the following internal controls to seek to prevent breaches of the Listing Rules similar to those described above occurring again:—

- all proposed continuing connected transactions (“CCT”) between the Company and the Manager must, before they are submitted to the Board of the Company for approval, be reviewed by the company secretary of the Company and an executive director of the Manager to make sure the relevant Listing Rules are properly complied with, and if necessary, external professional advice will be sought;
- all CCT must be approved by the Board of the Company, and any Director, if personally interested, must declare his interest in the transaction and abstain from voting on such transaction;
- if considered desirable by any Director, professional independent third party advisers will be appointed to advise on the CCT and its appropriateness and fairness; and
- an annual report on the CCT, forming part of the internal control report, must be submitted to the audit committee of the Company for review, comment and approval.

### **SCOPE AND MAJOR TERMS OF THE AMENDED INVESTMENT MANAGEMENT AGREEMENT**

Under the management agreement dated 28 March, 1991, the Manager is required amongst other things to provide management and investment advisory services for the Company in accordance with the description set out in the Placing Memorandum issued in connection with the initial listing of the Company (and see the paragraph headed “INVESTMENT OBJECTIVES AND POLICIES” in Appendix 4 to this circular) and generally to act in accordance with that Placing Memorandum, but the Board may approve any action by the Manager outside the scope of such description. The Directors have absolute discretion in approving any such action. The principal activity of the Manager is the provision of management services but it also provides services to the Company incidental to these management services. Since 28 March, 1991, the Manager has also been responsible for administrative services including the preparation of annual reports, and maintenance of accounts, books and records of the Group, and for monthly management updates and providing information to Directors to enable them to fulfill their responsibilities. The

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## LETTER FROM THE BOARD OF DIRECTORS

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Directors believe it is commonplace for fund managers to provide these types of service (which are non-exempt continuing connected transactions but part and parcel of the Amended Investment Management Agreement and not separate from it). Without prejudice to the generality of the foregoing the Manager is required:—

### **Investments**

- to identify suitable investment targets for the Company;
- to undertake or arrange competent persons to undertake all necessary research, enquiries and due diligence processes so as to enable the Company to evaluate the benefit and risks of each investment target identified by the Manager as potentially suitable for the Company;
- after investigation of a potential investment target, to present to the Board a written report and recommendation whether or not to invest;
- to negotiate terms and conditions for potential investments by the Company and advise the Company of those terms and conditions for its approval;
- to arrange all aspects of the implementation of a decision to invest by the Company;
- to monitor and keep under review all of the investments made by the Company;
- to recommend to the Board the disposal of all or part of an investment and the terms of such disposal and perform duties of such disposal; and
- generally to be responsible for issuing all orders and instructions with respect to the purchase, sale, dealing in and disposition of investments by the Company.

### **Administrative Services**

The Manager is required to provide the Company with general administrative services in connection with its business and operation, including:

- the general administration of the Company, including appointment of a suitable custodian to comply with listing requirements;
- the administration of all borrowings (if any) of the Company;
- the administration of necessary registrations with governmental and similar agencies, including making and obtaining all exchange control filings and permissions;

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## LETTER FROM THE BOARD OF DIRECTORS

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- the preparation of annual reports and such other material as the Company may request for distribution by the Company to the Shareholders;
- the commissioning from the Company's auditors of an annual audit;
- the setting up of appropriate investment vehicles incorporated in an appropriate jurisdiction for each project undertaken by the Company;
- arranging for despatch to the Shareholders and to the auditors of the Company written material as may be requested from time to time by the Board; and
- arranging for the appointment, supervision and remuneration of any manager required to be retained in respect of any investment of the Company.

### **Manager's Expenses**

The Manager shall pay its own costs in performing its functions.

### **The Company's Expenses**

The Company must reimburse the Manager in respect of its costs, charges and expenses including (a) the costs of the maintenance of the accounts, books and records of the Company and its subsidiaries (if any); (b) fees and expenses of legal counsel and other professional and secretarial services in connection with the Company's corporate existence, corporate and financial structure and relations with its shareholders and in connection with other legal services and other professional and secretarial services rendered to the Company or the Manager or any subsidiary at the request of the Company.

### **Reporting requirements**

The Manager must furnish to the Company a written report as to the state of the Company as at each Quarter Day which report shall contain:

- an unaudited profit and loss account of the Company;
- a report on each investment and Net Asset Value;
- a report as to the activities of the Manager in relation to each of the Company's and any subsidiary's assets during the quarter ending on that Quarter Day including details of any investments acquired or sold or agreed to be acquired or sold during the period;

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## LETTER FROM THE BOARD OF DIRECTORS

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- a report on prospective investment opportunities; and
- a report on the political and economic situation in China.

The Manager has been providing these services since 1991.

### INFORMATION ABOUT THE MANAGER

The Manager was incorporated on 22 January, 1991 and it was appointed to provide management and advisory services to the Company in March, 1991. It is registered under the SFO as a licensed corporation holding licences to carry out regulated activities Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management). Its principal activity is the provision of investment management services to the Company. Its organization chart is set out below:—



\* Responsible officer under SFO for regulated activities Type 4, 6 and 9

The functions and duties of each individual personnel member are listed below:—

| <b>Name</b>       | <b>Position</b>        | <b>Functions/Duties</b>  |
|-------------------|------------------------|--|
| Lo Yuen Yat       | Non Executive Director | <ul style="list-style-type: none"><li>• Oversee the Manager's business and advise on client's investment strategy;</li></ul>   |
| Zhu Dennis Demiao | Non Executive Director | <ul style="list-style-type: none"><li>• Oversee the Manager's business and formulate client's investment strategy;</li><li>• Responsible for corporate governance function of the Manager;</li></ul> |

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## LETTER FROM THE BOARD OF DIRECTORS

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| <b>Name</b>      | <b>Position</b>  | <b>Functions/Duties</b>   |
|------------------|--|---|
| Chan Suit Khown  | Chief Investment Officer<br>Responsible Officer/<br>Executive Director | <ul style="list-style-type: none"><li>• Formulate the client's overall investment strategy and perform day-to-day investment management functions such as deal sourcing, project evaluation, due diligence study and investment monitoring;</li></ul>   |
| Chan Sau Mei     | Associate Director/<br>Responsible Officer                             | <ul style="list-style-type: none"><li>• Perform the investment management functions and administrative functions;</li><li>• Responsible for the Manager's day-to-day operations;</li><li>• Oversee the client's compliance with the Listing Rules;</li></ul>                                    |
| Lin Jack Jun-how | Vice President   | <ul style="list-style-type: none"><li>• Assist the Chief Investment Officer to perform investment management function and due diligence function;</li><li>• Conduct market research;</li></ul>  |
| Chan Wai Chun    | Accounting Manager   | <ul style="list-style-type: none"><li>• Responsible for financial management function of the Manager and the client;</li><li>• Assist to review financial information of invested and potential projects;</li><li>• Assist to monitor the client's compliance with the Listing Rules;</li></ul> |

There are four staff in the investment department of the Manager:—

Mr. Chan Suit Khown — Mr. Chan has been the Chief Investment Officer of the Manager since June 2009, and is an executive director and a responsible officer under the SFO. Mr. Chan has a broad base of experience covering venture capital and investment banking as well as start-up businesses and operation management. Mr. Chan was with Advent International, a global venture capital firm based in Boston USA, for eleven years where he specialised in cross border investment as well as financial and investment advisory



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## LETTER FROM THE BOARD OF DIRECTORS

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services. Mr. Chan graduated from the University of Malaya with a Bachelor's degree in Mechanical Engineering and from the Harvard Business School, USA, with a Master's degree in Business Administration. Mr. Chan has not breached any laws, rules, and regulations in the relevant industry in any way which has a bearing on his integrity and competence. Mr. Chan was a Director of the Company from January 2011 till 17 October, 2012.

Ms. Chan Sau Mei — an associate director of the Manager and a responsible officer under the SFO since 31 December, 2010. Ms. Chan joined the Manager as manager in August, 2006. Ms. Chan is mainly responsible for performing the investment management function and supervising the day-to-day operations.

Ms. Chan's major duties and responsibilities in respect of the investment function include (i) to review and advise on the recommendations prepared by the investment department (ii) to monitor all aspects of implementation of the investment decisions approved by the investment committee of the Company (iii) to monitor all existing investments and to review and advise the investment committee on disposal of investments. Ms. Chan graduated from the Chinese University of Hong Kong with a Bachelor's degree in Social Science in 1994. In 2002, Ms. Chan obtained a Master's degree in Corporate Finance from the Polytechnic University of Hong Kong. Ms. Chan has not breached any laws, rules, and regulations in the relevant industry in any way which has a bearing on her integrity and competence.

Mr. Lin Jun How — a vice president of the Manager since January 2007, is mainly responsible for assisting the Chief Investment Officer and other investment personnel in financial modeling and gathering and analysing market and company data. Mr. Lin graduated from Cornell University, USA with a Bachelor's degree in Arts and from the China Europe International Business School, PRC, with a Master's degree in Business Administration. Mr. Lin has not breached any laws, rules, and regulations in the relevant industry in any way which has a bearing on his integrity and competence. Mr. Lin is the son-in-law of Mr. Lo Yuen Yat and the spouse of Ms. Lao Yuan Yuan, both executive Directors of the Company.

Ms. Chan Wai Chun — accounting manager. Ms. Chan Wai Chun joined the Manager as an accounting manager in January 2011. She is mainly responsible for financial management and compliance. Ms. Chan also assists in the review and analysis of financial data for existing and potential investment projects. Ms. Chan graduated from the Hong Kong University of Science and Technology with a Bachelor's degree in Accounting in 2005 and is a member of the Hong Kong Institute of Certified Public Accountants.

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## LETTER FROM THE BOARD OF DIRECTORS

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The investment department was set up by the Manager and all its members are employees of the Manager. Other than Mr. Lin, each member of the investment department is independent of the Company and its connected persons including First Shanghai.

There are two staff in the compliance department of the Manager:—

Ms. Chan Sau Mei and Ms. Chan Wai Chun (information about them is set out above)

### **PERFORMANCE OF THE MANAGER**

The Board is satisfied with the investment advice given by the Manager for reasons that include:—

The Net Asset Value increased from US\$122.33 million as at 1 January, 2006 to US\$168.59 million as at 31 December, 2011, representing an annual compound growth rate of 5.49% for 6 years period, compared with the HSI's annual growth rate of 3.64% over the same period.

The Company did not have any fund raising activities from 2006 to 2011 which had the effect of increasing the NAV during the said period.

The Company has reported profits for four of the six years since 31 December, 2005.

In 2008, the Company incurred a loss as its performance in that year was affected by the global financial crisis which was outside the control of the Manager. At the end of 2008, the NAV was US\$139.47 million, a decrease of US\$63.94 million, or 31.43%, compared to the NAV at the end of 2007, whilst the HSI decreased by 48.27% during the year.

In 2011, the Company incurred another loss which was reflective of the poor performance of the global stock market. At the end of 2011, the NAV was US\$168.59 million, a decrease of US\$28.85 million, or 14.61%, compared to the NAV at the end of 2010, whilst the HSI decreased by 19.9% over the same year.

Despite the losses incurred in 2008 and 2011, in view of the better relative performance of NAV compared to the performance of the HSI (by 16.8% and 5.3% respectively), the Board recognizes the losses of these two years as being acceptable in the circumstances.

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## LETTER FROM THE BOARD OF DIRECTORS

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### MANAGER'S INTERESTS

The Manager does not manage other funds.

Mr. Chan Suit Khown was an executive Director of the Company from January 2011 till October 2012. Mr. Chan has been the Chief Investment Officer of the Manager since June 2009 and was appointed as executive director and responsible officer of the Manager in November 2012. Under the Company's Articles of Association, amongst other things a Director is not entitled to vote in respect of any transaction in which he or any of his associates has a material interest, but this prohibition does not apply to any proposal concerning any other company in which the Director or his associates is/are interested only directly or indirectly, as an officer or executive or shareholder, provided that he and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company or of the voting rights. As Mr. Chan was not materially interested in the New Supplemental Agreement or the Amended Investment Management Agreement, Mr. Chan did not abstain from voting on the Board resolution to approve the New Supplemental Agreement on 25 September 2012.

In his capacity as a senior management member of the Manager, which was responsible for sourcing and is required to monitor the investments for the Company, Mr. Chan represents the Company on the boards of Holygene Corporation ("Holygene"), an associate of First Shanghai, of which Company holds a convertible bond, and of Junhui International Holdings Limited, a company in which the Company has invested by way of debt. Details of these investments are included in Appendix 3.

Mr. Chan is also a non-executive director of Sirton Pharmaceuticals S.p.A, a wholly-owned subsidiary of First Shanghai, which provides pharmaceutical services and is a business partner of Holygene.

Mr. Lin Jun How, the son-in-law of Mr. Lo Yuen Yat and the spouse of Ms. Lao Yuan Yuan, was vice president responsible for IT of UAT Holdings Limited, a wholly-owned subsidiary of First Shanghai from 1 January, 2005 to 31 December, 2006. He has no other present or historical business, directorship or employment relationship with the Company and First Shanghai.

Other than this, there is no relationship between any member of the investment department and (1) the Company or its Directors/management, and (2) First Shanghai, its directors/management or substantial shareholders.

### TRANSACTIONS WITH ASSOCIATED PARTY AND POTENTIAL CONFLICTS OF INTEREST

The following provisions are stipulated under the Amended Investment Management Agreement and intended to prevent any conflict of interests in selection of the investments to be made by the Company.

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## LETTER FROM THE BOARD OF DIRECTORS

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- The Manager, its shareholders and their respective employees and affiliates (“Associated Party”) may make venture capital investments for their own account and serve as officers, directors or agents of other companies (including target companies), in each case without any obligation to offer investment opportunities to the Company. Any such person may also promote, manage, advise, sponsor or be otherwise involved in funds which are similar to the Company and which invest in securities of companies established or operating in China. If any such party is so involved, the Manager agrees to seek to procure that the performance of the Manager’s duties will not be adversely affected by any such involvement;
- The Company may invest in investee companies or enterprises in which the Manager or any Associated Party has an interest, provided that disclosure of such interest is made to the Investment Committee and provided that they do so on terms no more favorable than those which would have been offered to third parties. Further, the Manager or any Associated Party may hold Shares and shall not be prevented from dealing with the Company as principal or as agent, provided that any such dealings are on terms no less favorable to the Company than could reasonably have been obtained had the dealing been effected with an independent third party ;
- The Manager and any Associated Party may provide management assistance or other services to investee companies or enterprises or to companies or enterprises in the same industry as investee companies or enterprises. The Company will not share benefits (e.g. fees, warrants) which the Manager or any such Associated Party may receive in connection with such services. The Manager or Associated Party may also act as underwriter or placing agent for an issue of securities acquired by the Company and realise a commission or other compensation with respect to the purchase of such securities by the Company;
- Any Associated Party may contract or enter into any financial, banking, currency or other transaction with the Company or with any investee company or enterprise and shall not be obliged to account to the Company in respect of any benefit derived therefrom. Any Associated Party may receive any commissions which it may negotiate in relation to any sale or purchase of any investments of the Company effected by it for the account of the Company and shall also be entitled to charge and retain such brokerage commissions or rebate of commissions or other charges in respect of the purchase or sale of investments effected by or through them as the Company would otherwise have to pay had such an order been executed through an independent third party.

The Directors are of the view that the above measures are adequate and effective to mitigate potential conflicts of interests between the Company and the Manager.

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## LETTER FROM THE BOARD OF DIRECTORS

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### INVESTMENT PROCEDURES

Investment opportunities are referred by business contacts, lawyers and other connections and then reviewed by the investment department of the Manager. Any employee or director of the Company or the Manager who is involved directly or indirectly in referring a potential project will be barred from the review and decision-making in respect of that project.

All staff and directors are required to declare if they are personally interested, directly or indirectly, in the potential project. Any employee or director who is personally interested is barred from any deliberation and decision making by the Company on the project.

The potential project will be subject to review, analysis and discussion by investment officers of the Manager who are independent from the potential project. The potential project will be subject to due diligence reviews by investment department of the Manager with the involvement of independent accountants and/or lawyers if necessary.

A “due diligence” review is an investigation of all aspects of the potential investment which may affect the investment decision. This will start with a signed confidentiality agreement between the Company and the potential investee. A checklist tailored for individual potential investees will be given to the management of the potential investee for completion. Upon assessing the response from the potential investee, the investment department of the Manager will carry out additional investigation as appropriate and may enlist the assistance of independent professionals. Normally, the investigations are carried out by review and inspection of relevant materials, discussions through meetings and enquiries with relevant parties, and site visits and physical inspections. The major areas of the investigation will include macro-environment of the industry involved, management, financial and legal matters. Depending on the business and complexity of the potential investee, investigation may be carried on production, marketing and information system.

If the potential investment proposal is approved by the Manager, a written proposal signed by the Chief Investment Officer will be submitted to the investment committee of the Company for its discussion, deliberation and approval. The members of the investment committee comprise Mr. Lo Yuen Yat, Ms. Lao Yuan Yuan and Mr. Yeung Wai Kin who are all Directors of the Company. The investment committee was set up by the Board of the Company and is a committee of the Board with power to make investment decisions and to approve the valuations of the Company’s investments prepared by the Manager. All proposals for acquisitions or disposals of investments are submitted by the Manager to the investment committee for approval.

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## LETTER FROM THE BOARD OF DIRECTORS

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### MANAGEMENT FEE AND PERFORMANCE FEE

Under the Amended Investment Management Agreement, the Manager is entitled to receive from the Company a management fee at the rates of (i) 2.75% per annum on the aggregate cost to the Company of the investments (less any provisions in respect thereof) held by it from time to time; and (ii) 1% per annum on the value of the uninvested net assets of the Company. In addition, the Manager is entitled to a performance bonus based on the following:

| <b>Return on Net Assets</b> | <b>Performance Bonus</b>                |
|-----------------------------|---|
| (a) on the first 10%        | : Nil;                                  |
| (b) on the next 10%         | : 15% x (NPAT minus 10% of Net Assets); |
| (c) on the excess over 20%  | : 20% x (NPAT minus 20% of Net Assets). |

The Manager is also entitled to an additional performance bonus equivalent to 20% of the Net Capital Gains of the Company if the net asset value of the Company as at a Quarter Day (as determined by the Directors of the Company) would be equal to or greater than 100% of the aggregate of the original subscription price of all shares in the Company which then remain outstanding. All amounts under the Amended Investment Management Agreement are payable in cash. It is possible for NPAT to be negative in which case no performance bonus would be payable.

The management fee is payable quarterly in advance on the first day of January, April, July and October, based on unaudited financial information (or if available, audited financial information) for the immediate preceding quarter. Any over-payment or underpayment will be adjusted in the subsequent quarterly management fee. The fee will be settled via bank transfer. Performance bonus, if any, based on audited information, will be payable in April in the subsequent year and will be settled via bank transfer.

The “aggregate cost to the Company of the investments held by it from time to time” is a summation of all investments costs of the Company, including investments in associates, investments made through subsidiaries, available-for-sale financial assets and financial assets at fair value through profit and loss. “Uninvested net assets of the Company” refers to the net asset value of the Company, net of investment revaluation reserve and the aggregate costs of the investments.

The financial information used in calculation of management fees and performance bonuses payable to the Manager under the Amended Investment Management Agreement is that of the Company itself, not of the Group.

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## LETTER FROM THE BOARD OF DIRECTORS

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The Company usually carries out its investment directly. It may be, under certain circumstances, for legal, taxation or other commercial reasons, preferable for the Company to set up a wholly-owned investment vehicle to carry the specific investment. The funding to the wholly-owned vehicle for its underlying investment will be entirely reflected in the books of the Company in the form of investment cost and/or loan to the wholly-owned subsidiary. When the basic management fee is calculated, the investment cost together with the loan, if any, to the investment vehicle is treated as invested asset. Therefore, the underlying investment will be subject to the management fee calculation. Hence, there is no difference to the basic management fee whether the Company invests direct or through an investment vehicle.

The performance bonus calculation in each year, is based on realized profits net of realized losses and provisions for impairment of its investments. In the situation that there is a realized or unrealized profit carried on the books of the investment vehicle, it will not be included in the calculation of performance bonus unless and until the profit has flowed to the Company as dividend. This basis is conservative and ensures the performance bonus is payable only when the Company has received the realized profit in cash. In the situation that there is realized or unrealized loss carried on the books of the investment vehicle, there will be an corresponding provision to be made by the Company on its interest in the investment vehicle, resulting a loss to be charged against realized profit for the purposes of calculating the performance bonus.

Based on the above, the Board considers a management fee and performance bonus payable to the Manager based on the financial information of the Company itself is fair and reasonable.

### **Computation of Net Capital Gains**

For the purposes of the additional performance bonus, “Net Capital Gain” can be described as the cumulative realized gain net of losses on investments since the commencement date, 11 April, 1992 (“day 1”), of the Amended Investment Management Agreement.

A record of realized gains and losses on each individual investment realized is maintained by an independent accounting firm, and the cumulative realized gains net of realized losses for all investments realized from day 1 to the end of June and December of each year, as appropriate, are calculated. If the cumulative net total is positive at the end of the relevant period, a net capital gain arises and a performance bonus equivalent to 20% of the net capital gain is payable to the Manager but only if, after the payment of the bonus, the net asset value of the Company would be equal to or greater than 100% of the aggregate of the original subscription price of all shares which are outstanding.

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## LETTER FROM THE BOARD OF DIRECTORS

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If an additional performance bonus is paid to the Manager, the balance of the cumulative net total gain is reduced to zero for the purposes of calculating subsequent gains so that the Manager will not be able to receive a further performance bonus in respect of historical net capital gain.

For the three years ending 31 December 2015, additional performance bonus, if any, will be payable based only on Net Capital Gains arising since 1 January 2013.

### **Computation of Return on Net Assets**

A performance bonus (other than the additional performance bonus mentioned above) may become payable by reference to the return on net assets (“RONA”). This performance bonus is rewarded if returns on the net assets of the Company, excluding all capital gains on investments, whether realized or unrealized, exceed agreed benchmarks. The calculation of the RONA is as follows:

—  $\text{NPAT}/\text{net assets} \times 100\%$

where net assets (“NA”) are the monthly weighed average net assets for the year.

If the RONA is:—

- less than or equal to 10%, no performance bonus is payable;
- more than 10% but less than or equal to 20%, the performance bonus shall be  $15\% \times (\text{NPAT} - 10\% \times \text{NA})$ ; and
- more than 20%, the performance bonus shall be  $20\% \times (\text{NPAT} - 20\% \times \text{NA})$ .



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## LETTER FROM THE BOARD OF DIRECTORS

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The table below sets out an illustrative example of the working mechanism of performance bonuses

All figures are hypothetical (in US\$ mil)

| Year | For the year** |                        |           |  |                           | NAV b/f<br>F | Change in reserves##<br>G | Performance Bonus |                            | NAV c/f<br>F+B+C+G-J |
|------|----------------|------------------------|-----------|--|---------------------------|--------------|---------------------------|-------------------|----------------------------|----------------------|
|      | NCLB*<br>A     | Net Capital Gains<br>B | NPAT<br>C | Chargeable capital gain<br>D = A + B,<br>if (A + B) < 0, 0 | NCLB c/f<br>E = A + B - D |              |                           | RONA***           | Net Capital Gains****<br>J |                      |
| 1    | -8.00          | 5.00                   | -1.20     | 0.00   | -3.00                     | 110.00       | -3.00                     | 0.00              | 0.00                       | 110.80               |
| 2    | -3.00          | 5.50                   | 1.00      | 2.50   | 0.00                      | 110.80       | -4.00                     | 0.00              | 0.50                       | 112.80               |
| 3    | 0.00           | 6.50                   | -0.90     | 6.50   | 0.00                      | 112.80       | -4.20                     | 0.00              | 1.30                       | 112.90               |

Notes:

\* NCLB : a balance representing the sum of (1) previous realized investment losses (net of previous realized gains) and (2) provision against investments

\*\* Net profit for the year equals to the sum of (1) Net Capital Gains (Loss) and (2) NPAT and (3) less performance bonus, if any

\*\*\* RONA bonus workings:

Year 1 : NPAT is negative, no performance bonus;

Year 2 :  $RONA = NPAT / \text{average NAV} = 1 / (110.8 + (112.8 - 0.5)) / 2 = 1 / 111.55 = 0.9\%$ , as RONA is less than 10%, no performance bonus;

Year 3 : NPAT is negative, no performance bonus

\*\*\*\* Capital gain bonus workings:

Year 1 : no additional performance bonus as Net Capital Gains is used to set off NCLB brought forward from 2012;

Year 2 : additional performance bonus =  $2.5 \times 20\% = 0.5$  ; remaining Net Capital Gains 3.0 is issued to set off NCLB brought forward from 2013;

Year 3 : additional performance bonus =  $6.5 \times 20\% = 1.3$

## Change in reserve is due to reverse of investment revaluation reserve upon disposal of relevant investments generating the Net Capital Gains

### High-watermarks

The Manager may thus be entitled to a performance bonus and/or additional performance bonus based on its performance by reference to:

- (1) the realized net gain of investments and/or
- (2) the return on net assets (excluding all capital gains in (1)) in excess of the set benchmarks.

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## LETTER FROM THE BOARD OF DIRECTORS

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If the New Supplemental Agreement is approved, the performance bonus and /or additional performance bonus will be payable in respect of any year if and only if the Net Assets of the Company (prior to deduction of the said performance bonus payable) for the relevant year is greater than the greatest of all previous Net Assets of the Company prior to deduction of the performance bonus and additional performance bonus (the “high-watermark”) (assuming Independent Shareholders approve the resolution to be proposed to approve those arrangements).

### **Rationale of the basis of management fees and performances bonus**

The management fees and bonus arrangements were originally based on market practices prevailing at the time the Amended Investment Management Agreement was first entered into and are still considered appropriate.

A review by the Company indicates that a majority of other investment managers providing services to companies listed under Chapter 21 of the Listing Rules are currently remunerated by reference to net asset value, for fees which range from 1.5% to 2.0% of net asset value. The Directors believe that the basis of remuneration of the Manager is nevertheless fair and equitable as it differentiates between invested and uninvested assets, with the Manager being able to earn more on invested assets. The Company has calculated that the management fees it paid ranged from 0.84% to 1.35% of net asset value from the year 2006 to 2011 and were lower than the average in the industry.

If the Company had used the basis which is more commonly used in the industry, which is to calculate either by reference to surplus net assets or to audited annual net profits, the Company would have paid a performance bonus to the Manager. However, by using the existing basis, whether with or without the proposed high-watermark, the Company has not been required to pay any performance bonus since the commencement of the Amended Investment Management Agreement.

For illustration, if the Company used 10% of audited annual net profits even with proposed high-watermark as a basis for determining the performance bonus, the Company should have paid approximately US\$ 1.3 million to the Manager for the two years ended 31 December, 2007. If the Company used surplus net asset even with proposed high-watermark as a basis for determining performance, using 110% of net asset at the end of year 2005 as the initial benchmark, the Company should have paid to the Manager approximately US\$6.03 million for the two years ended 31 December, 2007. On these two bases, if there were no high-watermark provision, the Company should have paid to the Manager approximately US\$3.22 million for the year ended 31 December 2009.

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## LETTER FROM THE BOARD OF DIRECTORS

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One major difference lies in the fact that performance bonuses are payable by the Company only when capital gains are realized, but unrealized capital gains are included in computation of performance bonus by many other investment companies. The Company believes that the basis adopted by the Company is more strict, conservative and beneficial to the Company as a whole.

### Historical management fees and performance bonus

Details of all management fees and performance bonus paid from 2004-2011 inclusive are as follows:—

| Year              | Management Fees                       |                                      | Performance Bonus |      |               |       | Total fees and bonus* | Net asset value per share |
|-------------------|---------------------------------------|--------------------------------------|-------------------|------|---------------|-------|-----------------------|---------------------------|
|                   | 2.75% on aggregate cost to investment | 1% on value of uninvested net assets | Total             | RONA | Capital Gains | Total |                       |                           |
|                   | USD                                   | USD                                  | USD               | USD  | USD           | USD   | USD                   | USD                       |
| 2004              | 704,056                               | 316,651                              | 1,020,707         | Nil  | Nil           | Nil   | 1,020,707             | 1.52                      |
| 2005              | 1,075,212                             | 189,202                              | 1,264,414         | Nil  | Nil           | Nil   | 1,264,414             | 1.64                      |
| 2006              | 1,348,273                             | 207,545                              | 1,555,818         | Nil  | Nil           | Nil   | 1,555,818             | 1.84                      |
| 2007              | 1,341,515                             | 357,314                              | 1,698,830         | Nil  | Nil           | Nil   | 1,698,830             | 2.66                      |
| 2008              | 1,341,467                             | 536,153                              | 1,877,620         | Nil  | Nil           | Nil   | 1,877,620             | 1.82                      |
| 2009              | 1,081,088                             | 439,451                              | 1,520,539         | Nil  | Nil           | Nil   | 1,520,539             | 2.40                      |
| 2010              | 1,391,614                             | 342,046                              | 1,733,660         | Nil  | Nil           | Nil   | 1,733,660             | 2.58                      |
| 2011              | 1,663,869                             | 255,361                              | 1,919,230         | Nil  | Nil           | Nil   | 1,919,230             | 2.20                      |
| 2012 <sup>#</sup> | 1,648,000                             | 257,000                              | 1,905,000         | Nil  | Nil           | Nil   | 1,905,000             | 1.98 <sup>##</sup>        |

\* The figures may not agree with the amounts in the audited financial statements. The discrepancies are not material, arising due to the timing differences when fees were prepaid based on the previous quarterly data and any over/undercharged amount was adjusted in the subsequent quarter.

<sup>#</sup> The figures for the year 2012 are based on actual management fees for January to September and projections for October to December. No performance bonus is expected to be payable.

<sup>##</sup> 30 September 2012 figure

### Annual Caps for 2013 to 2015

Pursuant to Rule 14A.35 (2) of the Listing Rules, annual caps must be specified in respect of the total fees payable by the Company, which have been agreed as follows, subject to Shareholder approval:

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## LETTER FROM THE BOARD OF DIRECTORS

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For the financial year ending 31 December, 2013: US\$2,144,000 (approx. HK\$16,680,320)

For the financial year ending 31 December, 2014: US\$2,713,000 (approx. HK\$21,107,140)

For the financial year ending 31 December, 2015: US\$4,132,000 (approx. HK\$32,146,960)

The breakdowns of these annual caps are as follows:—

| Year | Management Fees                                     |  | Performance Bonus   |                    |                             |                     | Total fees and bonus<br><i>USD</i> |
|------|---|--|---------------------|--------------------|-----------------------------|---------------------|------------------------------------|
|      | 2.75% on aggregate cost to investment<br><i>USD</i> | 1% on value of uninvested net assets<br><i>USD</i> | Total<br><i>USD</i> | RONA<br><i>USD</i> | Capital Gains<br><i>USD</i> | Total<br><i>USD</i> |                                    |
|      | 2013  | 1,861,000  | 283,000             | 2,144,000          | Nil                         | Nil                 |                                    |
| 2014 | 2,088,000   | 270,000  | 2,358,000           | Nil                | 355,000                     | 355,000             | 2,713,000                          |
| 2015 | 2,336,000   | 252,000  | 2,588,000           | Nil                | 1,544,000                   | 1,544,000           | 4,132,000                          |

These caps were agreed after negotiations with the Manager by reference to various factors including previous transactions, such as investments made, investments contracted and investments committed.

It is projected there will be a moderate increase in basic management fees for the 3 years ending 2015. The Company anticipates there will be realisation of investments in these 3 years which is expected to generate realised profit on disposals. The realisation of investments will increase the funding for further investments which will subject the Company to additional fees to be payable.

The Company anticipates that capital gains arising from the realisation of investments will trigger a performance bonus to be payable in 2014.

It is projected there will be a substantial increment in performance bonus in 2015. The projected Net Capital Gains in 2013 and 2014 would be initially offset by the cumulative net capital loss to be brought forward from the year 2012. For purposes of calculating Net Capital Gains for the performance bonus, a balance representing previous realized investment losses (net of previous realized gains) together with provision against investments (“Net Capital Loss Balance”), is projected to be brought forward from the year 2012. It is anticipated that the Net Capital Loss Balance would be partially offset by projected Net Capital Gains in 2013, resulting in a lesser amount of Net Capital Loss Balance to be carried forward to 2014. It is anticipated that the remaining balance of Net Capital Loss Balance brought forward from 2013 would be fully offset by the projected Net Capital Gains in 2014, resulting in a portion of projected Net Capital Gains in 2014

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## LETTER FROM THE BOARD OF DIRECTORS

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being subject to performance bonus. In 2015, the projected Net Capital Gains would be entirely subject to performance bonus. This explains the substantial increment in performance bonus from 2014 to 2015.

The Board considers the annual caps are fair and reasonable and in the interest of the Company and its shareholders as a whole.

The Company considers that the amount of management fee and the calculation of a performance fee conditional on a minimum threshold of net asset value are in line with market practice. The aggregate of management fee and performance fee paid by listed investment companies (within the meaning of Chapter 21 of the Listing Rules) ranges from 0.08% to 2.19% of their respective Net Asset Values. The range of 0.08% to 2.19% was identified based on numbers derived by the Company from published net asset value either at 31 December, 2011 or 30 September, 2011 of various companies listed under Chapter 21 of the Listing Rules. The aggregate amount of management fee and performance fee under the Amended Investment Management Agreement for the three years ending 31 December 2015 is projected on average at approximately 1.78% of the audited Net Asset Value at 31 December 2011, which falls within such range. The Board considers that the fee structure can reasonably motivate the Manager, since the performance fee could potentially substantially exceed the management fee, and this is in the interest of the Company.

### **DIRECTORS' INTERESTS**

The only Directors who at the material times were also directors of the Manager and the interests of the Directors in the Manager at times material to this circular are as follows:

Mr. Lo Yuen Yat has been a director of the Manager since 8 May, 1995 and a Director of the Company since 27 March, 1995. Mr. Lo is mainly responsible for the strategic direction of the Manager and is not involved in daily management and investment decision making. Mr. Lo is also the chairman and managing director of First Shanghai, which is both a substantial shareholder and an associated company of the Company. Previously, Mr. Lo was a senior policy researcher at China's National Research Centre for Science and Technology and Social Development and worked at the PRC State Science and Technology Commission, Ministry of Communications of the People's Republic of China and the PRC Railway Ministry. Mr. Lo graduated from Fudan University in Shanghai and obtained a master's degree from Harvard University, USA. Mr. Lo has not breached any laws, rules, and regulations in the relevant industry in any way which has a bearing on his integrity and competence. Mr. Lo is the father of Ms. Lao Yuan Yuan, an executive Director.

At the Latest Practicable Date Mr. Lo owned 225,000 Shares (or 0.29% of the existing issued capital) in the Company.

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## LETTER FROM THE BOARD OF DIRECTORS

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Mr. Yeung Wai Kin was a director of the Manager from 6 August, 1997 to 21 October, 2011 and has been a Director of the Company since 28 November, 1997. At the Latest Practicable Date Mr. Yeung owned 3% of the issued shares in the Manager and 100,000 Shares (or 0.13% of the existing issued capital) in the Company.

Ms. Lao Yuan Yuan was a director of the Manager from 25 January, 2007 to 21 October, 2011 and has been a Director of the Company since 20 September, 2005.

Mr. Zhao Yu Qiao has been a Director of the Company since April, 2000. At the Latest Practicable Date Mr. Zhao indirectly owned 28% of the issued shares in the Manager.

In every relevant annual report of the Company details of the Amended Investment Management Agreement and related management fees have been disclosed.

The table below sets out the Directors' interests in the Shares and share options of the Company at the Latest Practicable Date.

| Name of Director            | No. of Share options held | Number of Share options as percentage of issued Shares | No. of Shares held | Number of Shares as percentage of issued Shares | Number of Shares (including options) as percentage of issued Shares |
|-----------------------------|---------------------------|--|--------------------|---|---|
| Lo Yuen Yat                 | 1,475,000                 | 1.92%  | 225,000            | 0.29%   | 2.21%   |
| Lao Yuan Yuan               | 750,000                   | 0.98%  | Nil                | —   | 0.98%   |
| Jiang Wei                   | 550,000                   | 0.72%  | Nil                |   | 0.72%   |
| Yeung Wai Kin               | 1,150,000                 | 1.50%  | 100,000            | 0.13%   | 1.63%   |
| Zhao Yu Qiao                | 1,055,000                 | 1.37%  | Nil                | —   | 1.37%   |
| Fan Jia Yan                 | Nil                       | —  | 75,000             | 0.10%   | 0.10%   |
| Wu Ming Yu                  | 145,000                   | 0.19%  | Nil                | —   | 0.19%   |
| Total no. of issued Shares: |                           |  |                    |   | 76,758,160  |

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## LETTER FROM THE BOARD OF DIRECTORS

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### INFORMATION ABOUT THE RELATIONSHIP BETWEEN THE COMPANY, ITS DIRECTORS, FIRST SHANGHAI, AND THE MANAGER

China Assets is an investment company listed under Chapter 21 of the Listing Rules and is principally engaged in investments in companies and other business entities.

The Manager's sole business is the provision of management services to the Company pursuant to the terms of the Amended Investment Management Agreement. The responsible officers (as defined in the SFO) of the Manager are Chan Suit Khown and Chan Sau Mei and their particulars are set out above in the section headed "INFORMATION ABOUT THE MANAGER".

The Manager is a company owned by Mr. Yeung Wai Kin as to 3% and Mr. Zhao Yu Qiao (as to 28%, held through Asset Treasure Investments Limited), both of whom are Directors of the Company, and the balance is held by (i) Apex Energy Holdings Limited as to 55.5%, (ii) Mr. Fang Zheng as to 5.5%, (iii) Mr. Sun Xin Guo as to 5% and (iv) Mr. Wang Jun Yan ("Mr. Wang") as to 3%.

There is no relationship between (i) Apex Energy Holdings Limited and its ultimate beneficial owners, (ii) Mr. Fang Zheng and (iii) Mr. Sun Xin Guo and the Company, its Directors, and First Shanghai, its directors and substantial shareholders. Mr. Wang has no relationship with the Company and its Directors. Mr. Wang is a shareholder of China Alpha II Fund in which both the Company and the First Shanghai Group are passive financial investors. Mr. Wang is also a director and shareholder of the fund manager of China Alpha II Fund. At 30 June 2012 the Company owned 1.55% and First Shanghai owned 11.55% of that fund.

Mr. Wang owns 570,000 shares, which represent 0.74% of the issued shares of the Company. Other than that interest, none of Apex Energy Holdings Limited, Mr. Fan Zheng, Mr. Sun Xin Guo and Mr. Wang and their respective associates holds any shares in the Company or has any role in or relationship with the Company and its connected persons (other than their relationships with the Manager itself) the Company.

Other than Mr. Zhao Yu Qiao being a Director of the Company and his interest in Asset Treasure Investments Limited, Mr. Zhao Yu Qiao and Assets Treasure Investments Limited have no relationship with the Company, its Directors, and First Shanghai, its directors and substantial shareholders.

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## LETTER FROM THE BOARD OF DIRECTORS

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The biographical details of the directors of the Manager are as follows:—

The biographical details of Mr. Lo Yuen Yat and Mr. Chan Suit Khown are set out above in the section headed “DIRECTORS’ INTERESTS” and “INFORMATION ABOUT THE MANAGER” respectively.

Mr. Dennis D. Zhu was appointed a non-executive director on 15 May, 2012. Mr. Zhu is responsible for the corporate governance function and administration of the Manager. Mr. Zhu was Senior Advisor to the Oaktree group of companies from August 2010 to June 2011 and had been Managing Director of Oaktree Capital (Hong Kong) Limited from 2005. Prior to joining Oaktree in 2005, Mr. Zhu was Managing Director, Chairman of Greater China Operating Committee and member of Asia Pacific Executive Committee at JPMorgan Chase. Between 1994 and 1999, Mr. Zhu worked at Credit Suisse First Boston in the Equity Capital Markets and Investment Banking departments as Head of China Businesses. From 1992 to 1994, Mr. Zhu worked at FMC Corporation’s Investment Analysis Department and was based in Chicago, USA. Between 1982 and 1990, Mr. Zhu was with the Chinese central government at the Ministry of Finance in Beijing. Mr. Zhu holds an MBA degree (1993) from the University of Chicago Graduate School of Business, a Master’s degree in Economics (1985) from China’s Ministry of Finance Research Institute, and a BSc in Economics (1982) from the Hebei Institute of Geology, PRC.

### **INVESTMENTS — MANAGEMENT DISCUSSION AND ANALYSIS**

For 2009, the net profit for the year was US\$7.63 million and the NAV at year end was US\$183.48 million (2008: US\$139.47 million). This represented an increase of US\$44 million in NAV, an increase by 31.5% while the HSI increased by 52%.

For 2010, the net profit for the year was US\$4.10 million and the NAV at year end was US\$197.44 million. The NAV increased by US\$13.96 million, an increase by 7.6%, while the HSI increased by 5.3% year on year.

For 2011, the net loss for the year was US\$1.83 million and the NAV at year end was US\$168.69 million. The NAV decreased by US\$28.85 million, a decrease by 14.61%, while the HSI decreased by 19.9% year on year.

For the three years from 1 January, 2009 to 31 December, 2011, the NAV increased from US\$139.47 million to US\$168.59 million, an increase by US\$29.12 million or 20.88%, while the HSI increased from 14,387 points at the beginning of the period to 18,434 points, an increase of 28.1%.



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## LETTER FROM THE BOARD OF DIRECTORS

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Compared with the HSI, the NAV underperformed by around 8%. This was understandable given that the majority of the Company's investments were located in the PRC and their performance thus significantly affected by the PRC market. The Shanghai A index increased by 20.8% during the three years from 2009 to 2011 which was in line with the NAV performance of the Group.

Another major reason for the underperformance relative to the HSI was that, after the 2008 financial crisis, the Manager was of the view that there were uncertainties facing the global economy which would inevitably affect the performance of the Chinese economy and advised a moderate pace of investment be adopted, this being reflected on the cash balance maintained at a level of around US\$30 million on average throughout the 3 years period. The return on cash was low during the period, thus depressing the overall return and the NAV performance. The Company concurred with this advice.

Despite this, the market price of the Company outperformed the HSI during the period from 1 January, 2009 to 31 March, 2012 rising from HK\$2.64 to HK\$4.29, an increase by 59% while the HSI rose by only 42% from 14,387 points to 20,556 points.

The following information about the Company's investment portfolio for each year from 2006 to 2011 and the half year ended 30 June 2012 is set out in Appendix 3:—

- top ten investments/securities bought (with name of investee, stock code and investment amount)
- top ten (where appropriate) investment/securities as at each year end date (with name of investee, stock code where relevant and carrying value, percentage of shareholding)
- top three (where appropriate) investment/securities realized profit (with name of investee, stock code and gain amount) and basis for disposal
- top three (where appropriate) investment/securities realized losses (with name of investee, stock code and loss amount) and basis for disposal
- top three (where appropriate) investment/securities recognized impairment losses (with name of investee, stock code and loss amount) and basis of making provision

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## LETTER FROM THE BOARD OF DIRECTORS

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Also set out in Appendix 3 is additional information (as applicable and if not included above) about the Company's investments with a value of more than five per cent. of the Company's gross assets, and details of at least the ten largest investments (where appropriate) for the years 2006 to 2011 and the half year ended 30 June 2012:—

- (a) a brief description of the business;
- (b) proportion of the share capital owned;
- (c) cost;
- (d) Directors' valuation and, in the case of listed investments, market value;
- (e) dividends or other income received during the year from such investment (indicating any abnormal dividends);
- (f) dividend cover or underlying earnings;
- (g) any extraordinary items; and
- (h) net assets attributable to the investment; and
- (i) an analysis of any provision for diminution in value of investments, naming the investments against which provision has been made and stating for each investment:—
  - (i) cost;
  - (ii) provision made;
  - (iii) book value; and
  - (iv) reason for the provision.

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## LETTER FROM THE BOARD OF DIRECTORS

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### **Common Investments of the Company and the Directors or the Manager**

On 25 August, 2011, the Company entered into an investment agreement with Shanghai Moxing Environmental Science and Technology Co. Ltd., (“Moxing”) a PRC — incorporated company. Under the agreement, the Company or its wholly owned subsidiary will invest in total RMB4.65 million in two tranches for a total equity interest of 29.86%, subject to adjustment if Moxing does not achieve certain performance milestones, in which case the Company will be entitled to monetary compensation or additional equity. A consortium of 6 individuals (including Yeung Wai Kin, a Director of the Company) has invested on similar terms and conditions at RMB800,000 for a total equity interest of 5.137% (each investor’s share of the investment being RMB133,333 or an equity interest of 0.856%). The shares of the consortium are held by one of the 6 individuals who is a local PRC resident for the benefit of the other 5 individuals. The Company made the first tranche of its investment of RMB1.45 million on 28 February, 2012. The Company also paid RMB1.6 million, being half of the second tranche of the investment, in August 2012.

Save as disclosed in the section headed “Common Investments of the Company and the Directors or the Manager” none of the Manager and the directors of the Manager has any investment in, or any investment in common with, the Company. To the best knowledge of the Directors, there were no investments in common between the Company and the Manager and between the Manager and the Company’s ten major (at cost) investments for the three years ended 31 December, 2011 and up to the Latest Practicable Date.

Save as disclosed above in respect of Moxing, there were no common investments among the Company, the Directors, the Manager and the Manager’s director for the period from 2009 to 2011.

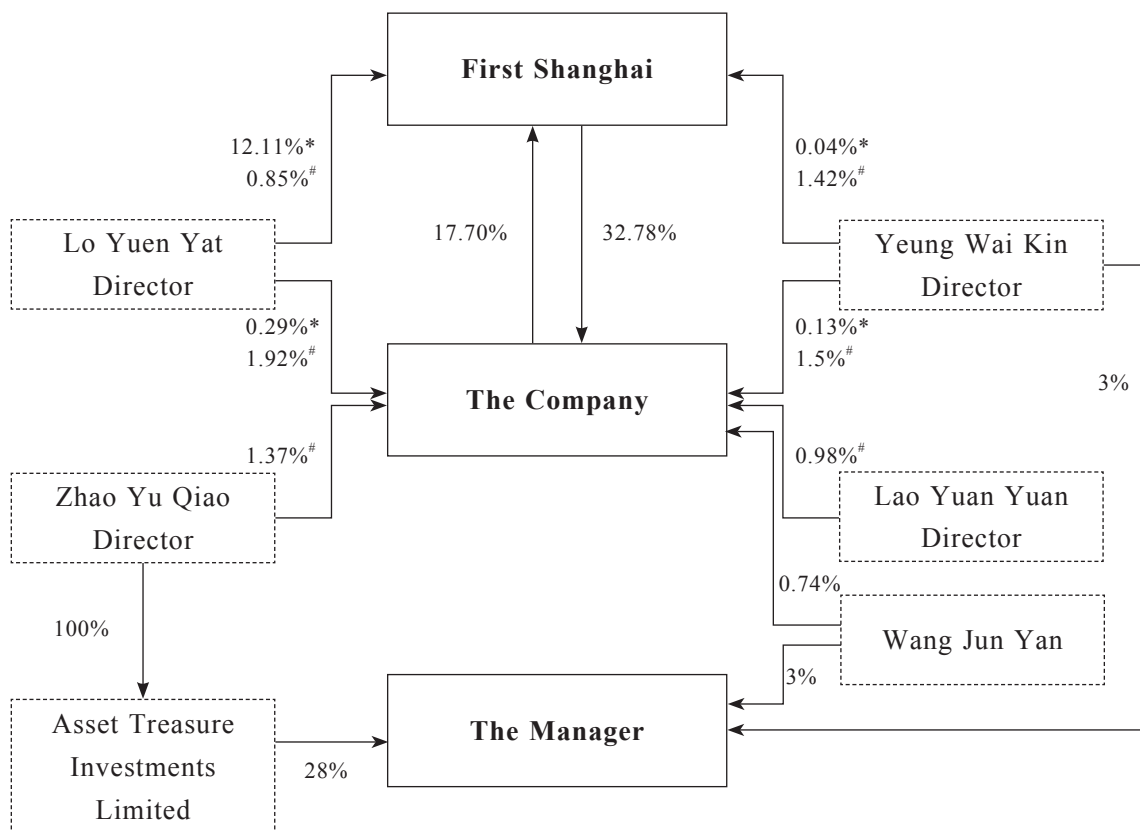
### **Relationships between the Company, its Directors, the Manager and its shareholders**

The relationships (including cross shareholdings, common directorships and/or other relationships) from 2006 to 30 June 2012 between the Company and its ten major (at cost) investments are set out in Appendix 3.

First Shanghai formerly held a 28% interest in the Manager. Its entire interest in the Manager was sold to Asset Treasure Investments Limited (a third party controlled by Mr. Zhao Yu Qiao, a Director, but otherwise independent of the Company and its Directors and First Shanghai) in August 2011.

## LETTER FROM THE BOARD OF DIRECTORS

The chart below sets out the shareholding relationship between the Company, its Directors, First Shanghai, and the Manager at the Latest Practicable Date.

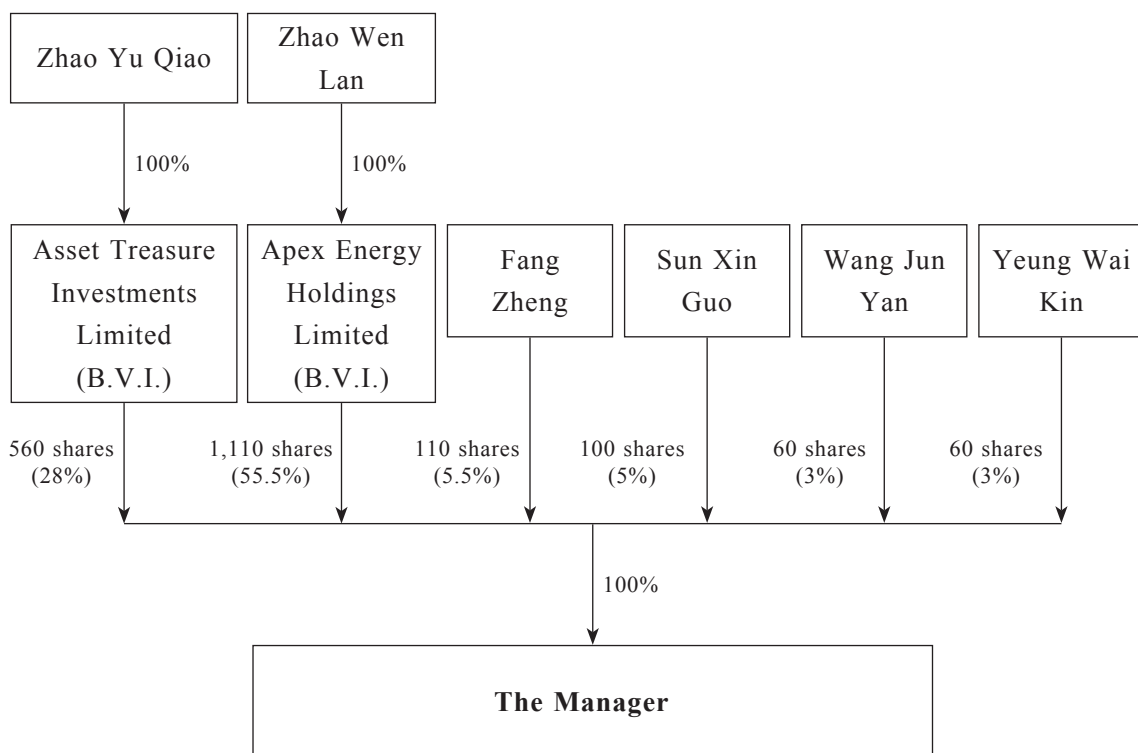


\* Shares held

# Share options held as percentage of issued shares at Latest Practicable Date

## LETTER FROM THE BOARD OF DIRECTORS

The following chart sets out the ownership of the Manager at the Latest Practicable Date.



The table below sets out common directorships (current and historical) among the Company, the Manager and First Shanghai at the Latest Practicable Date.

|                 | The Company           | The Manager                | First Shanghai   |
|-----------------|-----------------------|----------------------------|------------------|
| Lo Yuen Yat     |                       |                            |                  |
| Current         | 27/03/1995 - Now      | 08/05/1995 - Now           | 22/02/1993 - Now |
| Historical      | —                     | —                          | —                |
| Chan Suit Khown |                       |                            |                  |
| Current         | —                     | 12/11/2012 - Now           | —                |
| Historical      | 1/1/2011 - 17/10/2012 | 30/09/2009 -<br>11/11/2009 | —                |
| Yeung Wai Kin   |                       |                            |                  |
| Current         | 28/11/1997 - Now      | —                          | 16/06/1998 - Now |
| Historical      | —                     | 06/08/1997 -<br>21/10/2011 | —                |

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## LETTER FROM THE BOARD OF DIRECTORS

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|                      | The Company                | The Manager                | First Shanghai |
|----------------------|----------------------------|----------------------------|----------------|
| <b>Lao Yuan Yuan</b> |                            |                            |                |
| Current              | 20/09/2005 - Now           | —                          | —              |
| Historical           | —                          | 25/01/2007 -<br>21/10/2011 | —              |
| <b>Xu Xiao Feng</b>  |                            |                            |                |
| Current              | —                          | —                          | —              |
| Historical           | 28/06/2006 -<br>21/10/2011 | 31/07/2006 -<br>18/09/2012 | —              |

The table below sets out the common shareholders (current and historical) and their shareholding percentages among the Company, the Manager and First Shanghai at the Latest Practicable Date, to the extent known to the Company.

|                         | The Company | The Manager | First Shanghai |
|-------------------------|-------------|-------------|----------------|
| <b>Lo Yuen Yat</b>      |             |             |                |
| Year 2009               |             |             |                |
| Excluding share options | 0.13%       | Nil         | 12.00%         |
| Including share options | 2.06%       | Nil         | 12.85%         |
| Year 2010               |             |             |                |
| Excluding share options | 0.13%       | Nil         | 12.00%         |
| Including share options | 2.06%       | Nil         | 12.85%         |
| Year 2011               |             |             |                |
| Excluding share options | 0.20%       | Nil         | 12.11%         |
| Including share options | 2.12%       | Nil         | 12.96%         |
| Year 2012               |             |             |                |
| Excluding share options | 0.29%       | Nil         | 12.11%         |
| Including share options | 2.21%       | Nil         | 12.96%         |
| <b>Yeung Wai Kin</b>    |             |             |                |
| Year 2009               |             |             |                |
| Excluding share options | 0.00%       | 3.00%       | 0.10%          |
| Including share options | 1.63%       | N.A.        | 1.51%          |
| Year 2010               |             |             |                |
| Excluding share options | 0.00%       | 3.00%       | 0.04%          |
| Including share options | 1.63%       | N.A.        | 1.46%          |
| Year 2011               |             |             |                |
| Excluding share options | 0.13%       | 3.00%       | 0.04%          |
| Including share options | 1.63%       | N.A.        | 1.46%          |
| Year 2012               |             |             |                |
| Excluding share options | 0.13%       | 3.00%       | 0.04%          |
| Including share options | 1.63%       | N.A.        | 1.46%          |

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## LETTER FROM THE BOARD OF DIRECTORS

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|                         | The Company | The Manager | First Shanghai |
|-------------------------|-------------|-------------|----------------|
| <b>Xu Xiao Feng*</b>    |             |             |                |
| Year 2009               |             |             |                |
| Excluding share options | 0.00%       | 5.00%       | Nil            |
| Including share options | 0.98%       | N.A.        | Nil            |
| Year 2010               |             |             |                |
| Excluding share options | 0.00%       | 5.00%       | Nil            |
| Including share options | 0.98%       | N.A.        | Nil            |
| Year 2011               |             |             |                |
| Excluding share options | 0.00%       | 5.00%       | Nil            |
| Including share options | 0.98%       | N.A.        | Nil            |
| Year 2012               |             |             |                |
| Excluding share options | 0.00%       | 0.00%**     | Nil            |
| Including share options | 0.00%       | N.A.        | Nil            |
| <b>Lao Yuan Yuan</b>    |             |             |                |
| Year 2009               |             |             |                |
| Excluding share options | 0.00%       | Nil         | 1.55%          |
| Including share options | 0.98%       | Nil         | 1.91%          |
| Year 2010               |             |             |                |
| Excluding share options | 0.00%       | Nil         | 1.55%          |
| Including share options | 0.98%       | Nil         | 1.91%          |
| Year 2011               |             |             |                |
| Excluding share options | 0.00%       | Nil         | 1.55%          |
| Including share options | 0.98%       | Nil         | 1.91%          |
| Year 2012               |             |             |                |
| Excluding share options | 0.00%       | Nil         | 1.55%          |
| Including share options | 0.98%       | Nil         | 1.91%          |
| <b>Wang Jun Yan</b>     |             |             |                |
| Year 2009               |             |             |                |
| Excluded share options  | 0.74%       | 3.00%       | Nil            |
| Included share options  | 0.74%       | N.A.        | Nil            |
| Year 2010               |             |             |                |
| Excluded share options  | 0.74%       | 3.00%       | Nil            |
| Included share options  | 0.74%       | N.A.        | Nil            |
| Year 2011               |             |             |                |
| Excluded share options  | 0.74%       | 3.00%       | Nil            |
| Included share options  | 0.74%       | N.A.        | Nil            |
| Year 2012               |             |             |                |
| Excluded share options  | 0.74%       | 3.00%       | Nil            |
| Included share options  | 0.74%       | N.A.        | Nil            |

\* Resigned on 21 October 2011

\*\* shareholding was sold to Mr. Sun Xin Guo, an independent third party in September 2012

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## LETTER FROM THE BOARD OF DIRECTORS

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### IMPLICATIONS UNDER THE LISTING RULES

The Manager is a connected person of the Company under Rule 21.13 of the Listing Rules. The Amended Investment Management Agreement is thus a continuing connected transaction of the Company under the Listing Rules.

Accordingly, the Amended Investment Management Agreement and its various renewals and amendments constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. For the years 2004 and 2005 no shareholders' approval of the Amended Investment Management Agreement was required under Rule 14A.34 (2) of the Listing Rules as the cap under the Amended Investment Management Agreement for each of the years 2004 and 2005 was HK\$9,999,000 which was below the applicable percentage ratios in respect of the annual caps under the Listing Rules, of 25% and HK\$10 million.

During the years 2004 and 2005, the Company paid fees less than the caps and was required to comply only with the reporting and annual review requirements under Rules 14A.37 and 14A.38.

The Company complied with Rule 14A.37 in the year 2004 and 2005 and might not have complied with Rule 14A.38. The reason for failure to comply Rule 14A.38 was that the Company mistakenly believed that Rule 14A.38 was complied with when the auditors approved the annual reports.

The fees paid by the Company in respect of each of the financial years 2006-2011 (extracted from audited financial statements) were as set out below and, amongst other things, exceeded the HK\$10,000,000 per annum threshold for continuing connected transactions exempt from the independent shareholders' approval requirement under the Listing Rules.

| \$ | 2004      | 2005      | 2006       | 2007       | 2008       | 2009       | 2010       | 2011       |
|----|-----------|-----------|------------|------------|------------|------------|------------|------------|
| US | 1,020,707 | 1,264,414 | 1,555,818  | 1,698,830  | 1,877,620  | 1,520,539  | 1,733,660  | 1,969,435  |
| HK | 7,941,101 | 9,837,141 | 12,104,262 | 13,216,894 | 14,607,884 | 11,829,792 | 13,487,877 | 15,322,204 |

The renewal of the Amended Investment Management Agreement should therefore have been made subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. The Manager is a connected person of the Company, and Rule 14A.36 required it to re-comply with Listing Rules 14A.35 (3) and (4) when the Amended Investment Management Agreement was renewed. That requirement was not complied with. The Company's failure to comply strictly with the relevant Listing Rules was due to an oversight. The Company overlooked the fact that Listing Rule 21.13 is to the effect that for the purposes of Rule 14A.13, any investment manager, investment adviser or



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## LETTER FROM THE BOARD OF DIRECTORS

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custodian (or any connected person thereof) is regarded as a connected person of an issuer (such as the Company) listed under Chapter 21 of the Listing Rules and that the Manager is therefore regarded as a connected person of the Company for the purposes of Listing Rule 14A.13.

Shareholders will be asked at the Extraordinary General Meeting to consider and, if thought fit, approve a resolution to approve the proposed annual caps on remuneration of the Manager and the high-watermark.

The Amended Investment Management Agreement is also subject to annual review by independent non-executive Directors and auditors of the Company pursuant to Rules 14A.37 to 14A.40 of the Listing Rules.

Mr. Zhao Yu Qiao indirectly owns 28% of the issued shares in the Manager. Under Article 111 of the Company's articles of association, he was not entitled to vote and abstained from voting on the board resolution approving the New Supplemental Agreement. Mr. Yeung Wai Kin owns 3% of the issued shares in the Manager. According to the internal control policy on continuing connected transactions adopted by the Company in March 2012, he was required to, and did abstain from voting on the board resolution approving the New Supplemental Agreement.

The Company's Articles of Association specify circumstances in which a Director is not entitled to vote in respect of a transaction in which he or any of his associates has a material interest. This prohibition does not apply to, among other things, a proposal concerning any other company in which the Director or his associates is/are interested only directly or indirectly, as an officer or executive or shareholder, provided that he and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company or of the voting rights.

Mr. Lo was not required to abstain from voting on the board resolution approving the New Supplemental Agreement regardless of the fact he is a director of the Manager and father in law of Mr. Lin Jun How because those facts do not give him a material interest in the New Supplemental Agreement.

No other Director has a material interest in the New Supplemental Agreement or the Amended Investment Management Agreement, or is required to abstain from voting on the board resolution approving the New Supplemental Agreement.

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## LETTER FROM THE BOARD OF DIRECTORS

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### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been formed to consider, and to advise the Independent Shareholders on, the New Supplemental Agreement and its proposed annual caps on remuneration of the Manager and the high-watermark.

Kingsway Capital Limited has been appointed independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the New Supplemental Agreement, the proposed annual caps on remuneration of the Manager and the high-watermark are fair and reasonable. The letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out in Appendix 2. The letter of advice from the Independent Board Committee is set out in Appendix 1.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Shareholders will be required to abstain from voting at the Extraordinary General Meeting in respect of the resolution relating to the New Supplemental Agreement.

Mr. Yeung Wai Kin holds a 0.13% shareholding in the Company and has options to acquire further shares in the Company and a 3% shareholding in the Manager. Mr. Wang Jun Yan holds a 0.74 % shareholding in the Company and a 3% shareholding in the Manager. Both have advised they will abstain from voting at the Extraordinary General Meeting in respect of the resolution relating to the New Supplemental Agreement.

Mr. Zhao Yu Qiao is not shareholder in the Company and is therefore not entitled to vote at the Extraordinary General Meeting. Mr. Zhao Yu Qiao has a 28% indirect shareholding in the Manager and holds options to acquire shares in the Company and if he exercises those options in time, he will be required to abstain from voting at the Extraordinary General Meeting in respect of the resolution relating to the New Supplemental Agreement.

To the best knowledge and belief of the Directors, no other shareholders in the Manager also have shareholdings in the Company or options to acquire shares in the Company.

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## LETTER FROM THE BOARD OF DIRECTORS

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### RECOMMENDATION

The Directors (including the Independent Board Committee, who have taken into account the advice from the independent financial adviser) are of the view that the terms of the New Supplemental Agreement including the proposed high-watermark and annual caps on remuneration of the Manager are fair and reasonable and in the interest of the Company and its Shareholders as a whole and recommend the Shareholders to vote in favour of the resolution to be proposed at the Extraordinary General Meeting.

Independent Shareholders are strongly advised to consider the “Letter from the Independent Board Committee” set out in Appendix 1 to this circular which contains its recommendation to the Independent Shareholders and the “Letter from the Independent Financial Adviser” set out in Appendix 2 to this circular which contains its recommendation and opinions in respect of the New Supplemental Agreement and reasons taken into consideration before deciding to vote in favour of or against the resolution to be proposed at the Extraordinary General Meeting.

### ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the Appendices to this circular and to the notice of the Extraordinary General Meeting.

Yours faithfully

By order of the board

**CHINA ASSETS (HOLDINGS) LIMITED**

**LO YUEN YAT**

*Chairman*

*The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders.*

**CHINA ASSETS (HOLDINGS) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 170)**

***Board of Directors:***

*Executive Directors*

Mr. Lo Yuen Yat

Ms. Lao Yuan Yuan

*Non-executive Directors*

Mr. Jiang Wei

Mr. Yeung Wai Kin

Mr. Zhao Yu Qiao

*Independent Non-executive Directors*

Mr. Fan Jia Yan

Mr. Wu Ming Yu

Dr. David William Maguire

***Registered Office***

19th Floor

Wing On House

71 Des Voeux Road Central

Hong Kong

7 December, 2012

*To the Independent Shareholders*

Dear Sir/Madam

**NEW AGREEMENT SUPPLEMENTAL TO  
AMENDED INVESTMENT MANAGEMENT AGREEMENT  
— CONTINUING CONNECTED TRANSACTION**

We refer to the circular of the Company dated 7 December, 2012 (the “Circular”) to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the terms of the New Supplemental Agreement, and the proposed annual caps on remuneration of the Manager and high-watermark are fair and reasonable so far as the Independent Shareholders are concerned.

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## APPENDIX 1 LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Kingsway Capital Limited has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the New Supplemental Agreement, the proposed annual caps on remuneration of the Manager and the high-watermark. Your attention is drawn to the “Letter from the Board” set out on pages 5 to 41 of the Circular which contains, inter alia, information about the terms of the New Supplemental Agreement, the proposed annual caps on remuneration of the Manager and the high-watermark, and the “Letter from the Independent Financial Adviser” set out on pages 44 to 63 of the Circular which contains the advice from Kingsway Capital Limited in respect of the New Supplemental Agreement, the proposed annual caps on remuneration of the Manager and the high-watermark together with the principal factors taken into consideration in arriving at such.

Having considered the terms of the New Supplemental Agreement and having taken into account the factors and reasons considered by and the advice of Kingsway Capital Limited, we consider that the New Supplemental Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company. We also consider that the terms of the New Supplemental Agreement, the proposed annual caps on remuneration of the Manager and the high-watermark are fair and reasonable so far as the interests of the Independent Shareholders are concerned and that the entering into of the New Supplemental Agreement, the proposed annual caps on remuneration of the Manager and the high-watermark are in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the Extraordinary General Meeting to approve the New Supplemental Agreement, the proposed annual caps on remuneration of the Manager and the high-watermark.

Yours faithfully

For and on behalf of

Independent Board Committee

**Mr. Fan Jia Yan**

**Mr. Wu Ming Yu**

**Dr. David William Maguire**

*The following is the text of a letter of advice from Kingsway Capital Limited to the Independent Board Committee and the Independent Shareholders in connection with the continuing connected transaction in respect of the New Supplemental Agreement, which has been prepared for the purpose of incorporation in this circular:*

## **SUNWAH** KINGSWAY **新華滙富**

7 December 2012

*To the Independent Board Committee and the Independent Shareholders of  
China Assets (Holdings) Limited*

Dear Sirs,

### **NEW AGREEMENT SUPPLEMENTAL TO AMENDED INVESTMENT MANAGEMENT AGREEMENT — CONTINUING CONNECTED TRANSACTION**

#### **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 New Supplemental Agreement to the Amended Investment Management Agreement, the High Watermark (as defined below) and the proposed annual caps on remuneration of the Manager. Details of the continuing connected transaction in relation to the New Supplemental Agreement are set out in a circular (the “**Circular**”) of China Assets (Holdings) Limited (the “**Company**”) to the Shareholders dated 7 December 2012, of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

Reference is made to the announcement of the Company dated 26 September 2012 in relation to the entering into of the New Supplement Agreement on 25 September 2012 between the Manager and the Company to, amongst other things, amend the Amended Investment Management Agreement, such that the term under the Amended Investment Management Agreement will be extended for a further three years from 1 January 2013 to 31 December 2015, set the total annual remuneration payable to the Manager during the extended term and the High Watermark, subject to independent shareholders’ approval.

The second and third supplemental agreements to the Amended Investment Management Agreement dated 15 September 2010 and 27 April 2012 respectively relating to the extension of the term and the setting of proposed annual caps and the High Watermark were subject to independent shareholders' approval which was not obtained, and were both terminated by the New Supplemental Agreement.

The Manager is a connected person of the Company under Rule 21.13 of the Listing Rules. Accordingly, the entering into of the New Supplemental Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As stated in the letter from the Board (the "**Letter from the Board**") in the Circular, no shareholders' approval of the Amended Investment Management Agreement was required under the Listing Rules for the year 2004 and 2005 as the amount paid under it was de minimis. The Company complied with Rule 14A.37 of the Listing Rules in the year 2004 and 2005 but might not have complied with Rule 14A.38 of the Listing Rules as the Company mistakenly believed that Rule 14A.38 of the Listing Rules was complied with when the auditors approved the annual reports. The fees paid by the Company in respect of each of the year from 2006 to 2011 exceeded the HK\$10,000,000 per annum threshold. Hence, the Amended Investment Management Agreement and its renewals should therefore have been required under Rule 14A.36 to re-comply reporting, announcement and independent shareholders' approval requirements under Rules 14A.35(3) and (4) of the Listing Rules since 2006. However, such requirement was not complied with.

The Independent Board Committee has been formed to consider, and to advise the Independent Shareholders on, the New Supplemental Agreement and its proposed annual caps on remuneration of the Manager and the High Watermark. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **BASIS OF OUR OPINION**

In formulating our view and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information, opinions and representations contained or referred to in the Circular and provided to us by the Company, the Directors and the management of the Company (the "**Management**"), which the Directors consider to be complete, accurate and relevant. We have assumed that all the information, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true and accurate as at the date of the Circular. We have also assumed that all the statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no

reason to doubt 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 by the Company, the Directors and the management of the Company untrue, inaccurate or misleading. We consider that we have reviewed sufficient information to enable us to reach an informed view. The Directors have confirmed that no material facts or representations have been withheld or omitted from the information provided and referred to in the Circular. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the Management, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Company, the Manager, or any of their respective subsidiaries or associates.

## PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion, we have considered the following principal factors:

### (I) Reasons and benefits of entering into of the New Supplemental Agreement

#### (i) *Business background of the Company and relationship with the Manager*

The Company is an investment company listed on the Stock Exchange under Chapter 21 of the Listing Rules and is principally engaged in investments in companies and other business entities. The Manager has been engaged by the Company as investment manager to provide management services and present suitable investment opportunities to the Company before its listing in 1992.

#### (ii) *Financial performance of the Company*

The Company recorded net loss of US\$9.9 million for the six months ended 30 June 2012, compared to net loss of US\$0.2 million for the same period in 2011. The NAV decreased by 6.7% to US\$157.4 million as at 30 June 2012 from that as at 31 December 2011. As disclosed in the results announcement for the six months ended 30 June 2012 of the Company, the loss was mainly due to a provision of US\$4.0 million made against partial of its secured loan and interest receivables due from Junhui International Holdings Limited (the “**Junhui Loan**”), and an impairment loss of US\$2.9 million on its investment in Goldeneye Interactive Limited (“**Goldeneye**”). In addition, the change of NAV was attributed to the decline of the fair market value of its available-for-sale financial assets.



As stated in the Letter from the Board, the majority of investments of the Company were located in the PRC and thus their performance were significantly affected by the PRC market. After the 2008 financial crisis, the Company took the advice of the Manager to adopt a moderate pace of investment in view of the uncertainties facing the global economy which would inevitably affect the performance of the Chinese economy. Since return on cash of the Company was low in the last few years, the overall return and the NAV performance was depressed.

We have reviewed the change in net asset value of the Comparable Companies (as defined below) excluding Ch Inv which had fund raising activity in the latest year. We noted that 8 out of 9 of them all together recorded decline in net asset value by 1.8% to 23% as at the latest year/interim end compared to that last year/interim end and the declining rate of NAV of the Company of 6.7% falls within the range among those Comparable Companies.

As stated in the Letter from the Board, the net asset value of the Company increased by an annual compound growth rate of approximately 5.5% for a 6-year period from approximately US\$122.3 million as at 1 January 2006 to approximately US\$168.6 million as at 31 December 2011. Taking into account the rate above as compared to the annual growth rate of approximately 3.6% of Hang Seng Index over the same period, the Directors are satisfied with the performance of the Manager and consider that it is beneficial to the Company and the Shareholders to retain the Manager as the Company's investment manager.

Taking into account of (i) the principal business of the Company which is investment; (ii) the long term business relationship between the Company and the Manager; (iii) the outperforming NAV performance of the Company under the management of the Manager as at 31 December 2011 as compared to that of Hang Seng Index under the recent global investing environment; (iv) the fact that the decreasing rate of NAV of the Company for the latest interim period falls within the range of declining rate among the Comparable Companies; and (v) as set out from the Letter from the Board, the procedure that all investment proposals from the Manager have to be submitted by the Manager to the Investment Committee, which comprises Mr. Lo Yuen Yat, Ms. Lao Yuan Yuan and Mr. Yeung Wai Kin who all are Directors, for approval, we concur with the Directors' view and are of the view that the entering into

of the New Supplemental Agreement is in line with the ordinary and usual course of business of the Company and it is beneficial to the Company and the Shareholders to retain the Manager as the Company's investment manager.

## (II) Major terms of the New Supplemental Agreement

We have reviewed the Amended Investment Management Agreement and noted that the major changes between such agreement and the New Supplemental Agreement include (i) the extension of term to 31 December 2015; (ii) the fixing of annual caps for the extended term; and (iii) the inclusion of High Watermark (as defined below).

### (i) *Remuneration package*

Under the New Supplemental Agreement, the Manager is entitled to receive from the Company a management fee at the rates of (i) 2.75% per annum on the aggregate cost to the Company of the investment (less any provisions in respect thereof) held by it from time to time; and (ii) 1% per annum on the value of the uninvested net assets of the Company.

In addition, the Manager is entitled to a performance bonus based on the following:

Return on net assets performance Bonus (the "**RONA Bonus**")

- (a) on the first 10%: Nil;
- (b) on the next 10%: 15% x (NPAT minus 10% of Net Assets);
- (c) on the excess over 20%: 20% x (NPAT minus 20% of Net Assets).

The Manager is also entitled to an additional performance bonus equivalent to 20% of the Net Capital Gains of the Company if the net asset value of the Company as at such Quarter Day (as determined by the directors of the Company) would be equal to or greater than 100% of the aggregate of the original subscription price of all shares in the Company which then remain outstanding. All amounts under the New Supplemental Agreement are payable in cash.

In addition, the RONA Bonus and/or additional performance bonus are/is payable in respect of any year if and only if the Net Asset Value (prior to deduction of any RONA bonus or additional performance bonus payable) for the relevant year is greater than the greatest of all previous Net Asset Values (prior to deduction of all previous RONA bonus or additional performance bonus, if any) (the “**High Watermark**”).

In order to assess the fairness and reasonableness of the remuneration package under the New Supplemental Agreement, we have reviewed the fee structures of 24 companies which are listed in Hong Kong under Chapter 21 of the Listing Rules (the “**Chapter 21 Companies**”) as far as we can identify, among which we selected 10 companies of which (i) principal business are similar with that of the Company; and (ii) the remuneration packages offered to investment managers comprise both management fee and performance fee (collectively the “**Comparable Companies**”) for comparison. The remaining 14 companies are not included in the comparison below as their fee structure are either different from that under the New Supplemental Agreement (for example, no incentive/performance fee is included in the remuneration package) or details of which were not publicly disclosed in their annual reports and/or public announcements/circulars, which made our direct comparison not possible. Fee structure of the 10 Comparable Companies and the Company are summarised as follows:

| Company                      | Stock Code | Latest published interim/year-end net asset value | Year on year growth <sup>#</sup> | Management fee basis                  | Actual management fee per annum (representing as a % of the net asset value as at the latest preceding year end) <sup>##</sup> | Performance fee basis   | Term of terminating notice |
|------------------------------|------------|---|----------------------------------|---------------------------------------|--|---|----------------------------|
| UBA Investments Ltd. (“UBA”) | 768        | 31/3/2012 HK\$103.1 million                       | (23%)                            | 1.5% per annum of the net asset value | 1.69%  | 20% of net profit of the group before taxation and before deduction of the management fee for each financial year | 6 months                   |

| Company   | Stock Code | Latest published interim/year-end net asset value | Year on year growth <sup>#</sup> | Management fee basis   | Actual management fee per annum (representing as a % of the net asset value as at the latest preceding year end) <sup>##</sup> | Performance fee basis   | Term of terminating notice |
|---|------------|---|----------------------------------|--|--|---|----------------------------|
| Shanghai International Shanghai Growth Investment Limited ("Shanghai Growth") | 770        | 30/6/2012 US\$20.1 million                        | (1.8%)                           | 0.5% per quarter of the net asset value (calculated before deduction of the fees payable to the investment manager, the investment adviser and the custodian for that quarter) | 2.14%  | <p>For the year ending 31 Dec 2011, 15% of the amount by which the net asset value as at 31 Dec 2011 exceeds 115% of net asset value as at 31 Dec 2010 (net of actual special dividend to be paid in 2011);</p> <p>For the year ending 31 Dec 2012 onwards, 20% of the amount by which the net asset value as at 31 Dec of each year exceeds 108% of net asset value of the immediate preceding year (net of special dividend (if any) paid in the relevant year);</p> <p>Any new capital shall be deducted from the net asset value as at 31 Dec of the relevant year;</p> <p>No performance fee shall be payable if the net asset value per share is less than certain amount adjusted annually according to the amount of special dividend paid in the relevant year</p> | 2 months                   |

| Company   | Stock Code |           | Latest published interim/year-end net asset value | Year on year growth <sup>#</sup> | Management fee basis                                 | Actual management fee per annum (representing as a % of the net asset value as at the latest preceding year end) <sup>#</sup> | Performance fee basis  | Term of terminating notice |
|---|------------|-----------|---|----------------------------------|--|---|--|----------------------------|
| China Financial International Investments Limited ("C Fin Int") | 721        | 30/6/2012 | HK\$900.4 million                                 | 10.8%                            | 0.75% per annum of the market value of the portfolio | 0.14%   | 5% per annum of the appreciation in the market value of the portfolio above 10% hurdle rate per annum  | 1 month                    |
| Harmony Assets Ltd. ("Harmony Assets")                          | 428        | 30/6/2012 | HK\$253.6 million                                 | (11.0%)                          | 1.5% per annum on the net asset value                | 1.62%   | 10% of the audited net profit of the company of a financial year before the accrual of the incentive fee   | N/A <sup>(Note)</sup>      |
| Prosperity Investment Holdings Ltd. ("Prosp Inv")               | 310        | 30/6/2012 | HK\$285.3 million                                 | (22.7%)                          | HK\$300,000 per month                                | 1.29%   | Discretionary bonus maximised to 1.9% per annum of the consolidated net asset value of the company less the management fee paid during the year, provided that (i) the aggregate amount of such discretionary performance fee (if any) and the annual management fee shall not in any event exceed 1.9% of the audited consolidated net asset value of the company as at the end of such financial year; and (ii) the audited consolidated net asset value as at the end of a financial year exceeds that in the previous financial year | N/A <sup>(Note)</sup>      |

| Company   | Stock Code | Latest published interim/year-end net asset value | Year on year growth <sup>#</sup> | Management fee basis   | Actual management fee per annum (representing as a % of the net asset value as at the latest preceding year end) <sup>##</sup> | Performance fee basis   | Term of terminating notice |
|---|------------|---|----------------------------------|--|--|---|----------------------------|
| SHK Hong Kong Industries Ltd. ("SHK HK")                          | 666        | 30/6/2012<br>HK\$1,134.9 million                  | (7.3%)                           | 1.5% per annum of net asset value  | 1.67%  | 20% of the amount by which the audited consolidated net asset value attributable to shareholders of each year ending 31 December, exceeds the audited consolidated net asset value of attributable to the shareholders as at the end of the latest financial year in which the investment manager was entitled to a performance fee   | N/A <sup>(Note 1)</sup>    |
| OP Financial Investments Ltd. ("OP Fin")                          | 1140       | 31/3/2012<br>HK\$1,538 million                    | (3%)                             | 1.5% per annum on the net asset value  | 1.47%  | 10% of the increase in NAV per share  | N/A <sup>(Note 2)</sup>    |
| China Merchants China Direct Investments Ltd. ("China Merchants") | 133        | 30/6/2012<br>US\$447.5 million                    | (8.5%)                           | The aggregate of (a) 2.25% of the book value (net of taxes) of the invested portion of the assets of the company; and (b) 0.75% of the book value of the uninvested portion of the assets of the company | 2.07%  | Equal to 15% of the amount by which the net asset value of the company as at the end of the relevant financial year exceeds the higher of the (i) 112% of the net asset value of the company for the immediately preceding financial year; (ii) the net asset value of the company for the reference year; or (iii) the net asset value of the company of the most recent financial year after the reference year and in which a performance fee was paid | 6 months                   |

| Company  | Stock Code | Latest published interim/year-end net asset value | Year on year growth <sup>#</sup> | Management fee basis   | Actual management fee per annum (representing as a % of the net asset value as at the latest preceding year end) <sup>##</sup> | Performance fee basis   | Term of terminating notice |
|--|------------|---|----------------------------------|--|--|---|----------------------------|
| China Investment and Finance Group Ltd. ("Ch Inv") | 1226       | 31/3/2012<br>HK\$543.4 million                    | (13.855%)<br><i>(Note 2)</i>     | HK\$250,000 per month  | 0.46%  | 10% of the surplus net asset of the company as at the last valuation date in a financial year as a defined in the agreement   | N/A <i>(Note)</i>          |
| China New Economy Fund Ltd. ("CNewEcon Fund")      | 80         | 30/6/2012<br>HK\$243.7 million                    | (8.04%)                          | 2% per annum on the net asset value  | 2.19%  | 20% of the increase in net asset value per share  | N/A <i>(Note)</i>          |
| The Company  | 170        | 30/6/2012<br>US\$157.4 million                    | (19.6%)                          | (i) 2.75% per annum on the aggregate cost to China Assets of the investment (less any provisions in respect thereof) held by it from time to time; and (ii) 1% per annum on the value of the uninvested net assets | 1.17%  | (i) On the first 10% return on net assets — Nil;<br>(ii) On the next 10% return on net assets — 15% x net profit after tax minus 10% of net assets;<br>(iii) On the excess over 20% return on net assets — 20% x net profit after tax minus 20% of net assets; and<br>(iv) 20% of the Net Capital Gains | 6 months                   |

| Company | Stock Code | Latest published interim/year-end net asset value | Year on year growth <sup>#</sup> | Management fee basis | Actual management fee per annum (representing as a % of the net asset value as at the latest preceding year end) <sup>##</sup> | Performance fee basis  | Term of terminating notice |
|---------|------------|---|----------------------------------|----------------------|--|--|----------------------------|
|         |            |   |                                  |                      |  | The RONA Bonus and/or additional performance bonus are/is payable in respect of any year if and only if the Net Asset Value (prior to deduction of any RONA bonus or additional performance bonus payable) for the relevant year is greater than the greatest of all previous Net Asset Values (prior to deduction of all previous RONA bonus or additional performance bonus, if any) |                            |

\* Source: Annual report/ interim report/ circular of the Comparable Companies

# Being the growth of the latest published interim/year-end net asset value over that last year

## None of the Comparable Companies and the Company has paid any performance fee in the latest preceding year

*Notes:*

1. No disclosure of the term of terminating notice in the annual reports or circulars of the Comparable Companies.
2. According to the published annual reports of Ch Inv, Ch Inv had a fund raising activity in the latest year and recorded improvement in its net assets. It recorded net liabilities of approximately HK\$4.0 million as at 31 March 2011 and net assets of approximately HK\$543.4 million as at 31 March 2012.



*(a) Management fee analysis*

The Manager is entitled to receive from the Company a management fee at the rates of (i) 2.75% per annum on the aggregate cost from the Company of the investment (less any provisions in respect thereof) held by it from time to time; and (ii) 1% per annum on the value of the uninvested net assets of the Company. We understood from the Company that, for the purposes of management fee calculation, the sum of aggregate cost of the investment (less any provisions in respect thereof) and value of the uninvested net assets equals the net asset value (net of investment revaluation surplus) of the Company.

As shown in the table above, it is not uncommon of an investment company to pay its investment manager a management fee which is calculated as a certain percentage of net asset value. Hence, the calculation basis of the management fee of the Company is in line with that of most of the Comparable Companies.

As shown in the table above, while the management fee rates of the Comparable Companies (excluding those offering a fixed fee) range from 1% to approximately 2.25% per annum on net asset value, the actual management paid by them represented 0.14% to 2.19% of their respective net asset value for the latest preceding year.

The management fee rate under the New Supplemental Agreement is the highest among the Comparable Companies. Nevertheless, the actual management fee paid by the Company for the year ended 31 December 2011 was approximately US\$1.97 million, representing approximately 1.17% of the net asset value of the Company as at 31 December 2011 of US\$168.6 million and thus the actual management fee rate of the Company falls within the range among the Comparable Companies. In addition, as advised by the Company, the Company has always had uninvested net assets in the past and anticipates that it will not be changed in the foreseeable future. Also, as discussed below, we noted that most of the Comparable Companies calculate the performance fee based on surplus in net asset value no matter realised or not, while the Company calculates the same based on realised return. Taking into consideration of the above as a whole, although the management fee rate under the New Supplemental Agreement is the highest among the Comparable Companies, we concur with the Directors and are of the view that the management fee rate of the Company is fair and reasonable.

*(b) Performance fee analysis*

The Manager will be entitled to receive from the Company a performance fee which will be composed of

- (i) RONA Bonus, being 15% of NPAT exceeding 10% Net Assets and 20% of NPAT exceeding 20% Net Assets; and
- (ii) an additional performance bonus equivalent to 20% of the Net Capital Gains provided that the net asset value of the Company as at such Quarter Day (as determined by the Directors) would be equal to or greater than 100% of the aggregate of the original subscription price of all shares in the company which then remain outstanding.

We note from the table above that

- (i) while the basis of performance fees of the 10 Comparable Companies of which the remuneration packages include a performance fee varies, 7 of them, namely Shanghai Growth, C Fin Int, SHK HK, OP Fin, China Merchants, Ch Inv, CNewEcon Fund, will have to pay a performance fee of 10% to 20% of any surplus in net asset value and/or over certain additional hurdle rates, as compared to that in the preceding or a reference year. Most of the hurdle rates of Comparable Companies were set according to the net asset value as at the previous period end. The investment manager of one of them, Prosp Inv, will be entitled to a discretionary performance fee of 1.9% for any net asset value exceeding the amount of management fee paid during the year; and
- (ii) the performance fees of the remaining 2 Comparable Companies, namely UBA and Harmony Assets, are calculated based on 10% to 20% of net profit but before tax and/or management fees or incentive fees, while that of the Company is calculated based on 15% to 20% of NPAT.

The RONA Bonus mainly rewards the Manager for any interest or dividend income from investment after deduction of management fee and other overheads and is calculated based on 15% to 20% of the amount of NPAT exceeding 10% to 20% of Net Assets for the year. The additional performance bonus rewards the Manager for any realised investment gain and is calculated based on 20% of Net Capital Gains. Hence, we concur with the Directors' view that the RONA Bonus and the additional performance bonus will not create double counting of bonus. In addition, we concur with the Directors' view that the High Watermark mechanism can prevent the Investment Manager from being paid again due to increasing Net Asset Value as at the end of a year without reaching any new high compared to the Net Asset Value as at the end of the previous years.

While net asset value includes unrealised fair value gains of available-for-sale financial assets, as advised by the Directors, NPAT which is used to calculate the RONA Bonus mainly includes interest income and dividend income from investments after deduction of management fee and other overheads, and does not take into account of all capital gains of investments, whether realised or unrealised. Hence, as further advised by the Directors, the Manager will obtain RONA Bonus only if (i) income revenue in nature is derived from the investments and other net assets (including cash) and of which the amount must exceed (a) the amount of management fee and other overheads for the year and (b) 10% to 20% of Net Assets; and (ii) the Net Asset Value (prior to deduction of the performance fee, including RONA Bonus and additional performance bonus) for the relevant year is greater than the High Watermark.

In connection with the additional performance bonus, as stated in the Circular, Net Capital Gains are the proceeds from disposals of investments of the Company net of (i) all direct associated expenses; (ii) the relevant book cost of those disposed investments (excluding any revaluation or provision made for accounting purpose); and (iii) any capital loss previously realised including losses incurred on the write-off of investments considered to be of nil or negligible value and not previously offset against any Net Capital Gains. Hence, as advised by the Directors, the Manager will obtain the additional performance

bonus only if (i) there is net proceeds from realised capital gains from investments and of which the amount must exceed certain thresholds, in particular, (a) the amount of any capital loss previously realised for offset; and (b) the level of net asset value of the Company after payment of such bonus; and (ii) the Net Asset Value (prior to deduction of the performance fee, including RONA Bonus and additional performance bonus) for the relevant year is greater than the High Watermark.

As advised by the Directors, they consider that the calculation of performance fee based on NPAT and/or Net Capital Gains instead of net asset value or any surplus of it would be a more effective way to motivate the Manager to achieve a better performance and would be more beneficial to the Company.

Taking into account that (i) the performance fee (including RONA Bonus and additional performance bonus) of the Company is calculated based on net realised gains in NPAT and/ or Net Capital Gains which, in the opinion of the Directors, would give the Manager a better incentive as compared to net asset value or any surplus of it; (ii) the RONA Bonus is calculated based on 15% to 20% NPAT exceeding 10% to 20% of Net Assets as compared to the 10% to 20% net profit before tax and/ or certain fee in general of the Comparable Companies, and is payable only if the Net Assets (prior to deduction of the performance bonus) for the relevant year is greater than the High Watermark; (iii) the RONA Bonus and the additional performance bonus will not create double counting of bonus; (iv) the High Watermark mechanism can prevent the Investment Manager from being paid again due to increasing Net Asset Value as at the end of a year without reaching any new high compared to the Net Asset Value as at the end of the previous years, and (v) in the view of the Directors, the inclusion of performance fee in the remuneration package can give the Manager more incentive to maximise gain from investment, we concur with the Directors and are of the view that the basis of the performance fee is fair and reasonable as far as the Independent Shareholders are concerned.

Except from the addition of the High Watermark, the remuneration package under the New Supplemental Agreement is the same as that under the Amended Investment Management Agreement. Management fee of approximately US\$1.9 million and nil performance fee was paid by the Company for the year 2011. We have discussed with the Company and understood that, if the Company had adopted the remuneration package of the Comparable Companies, it would have paid management fee of up to approximately US\$3.4 million and nil performance fee (being the fee calculated based on the remuneration package of CNewEcon Fund) to the Manager for the year 2011, which would be much higher than the actual fee paid by the Company for such year. Hence, we consider that the remuneration package under the New Supplemental Agreement as a whole, comprising the management fee and the performance fee (subject to the High Watermark), is fair and reasonable.

(ii) *Term of terminating notice*

As set out in the table above, the terminating notice period of the Comparable Companies ranged from two months to six months. The Amended Investment Management Agreement (as amended) may be terminated by a party by serving not less than six months' written notice to the other party, and thus is in line with the terms offered by the certain Comparable Companies.

Having considered the above, we are of the view that the major terms of the New Supplemental Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

**(IV) Proposed annual caps**

The historical annual fee paid by the Company under the Amended Investment Management Agreement from 2004 to 2012, being management fee only, and the proposed annual caps on the total annual remuneration payable to the Manager under the New Supplemental Agreement for the three years ending 31 December 2015 are as follows:

|                                    | 2004      | 2005      | 2006      | 2007      | 2008      | 2009        | 2010        | 2011        | 2012 <sup>#</sup> |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-------------|-------------|-------------|-------------------|
| Historical annual                  |           |           |           |           |           |             |             |             |                   |
| fee (US\$)                         | 1,020,707 | 1,264,414 | 1,555,818 | 1,698,830 | 1,877,620 | 1,520,539   | 1,733,660   | 1,969,435   | 1,905,000         |
| Year-on-year growth                | —         | 23.9%     | 23.0%     | 9.2%      | 10.5%     | -19.0%      | 14.0%       | 13.6%       | -0.7%             |
|                                    |           |           |           |           |           |             |             |             |                   |
|                                    |           |           |           |           |           | <b>2013</b> | <b>2014</b> | <b>2015</b> |                   |
|                                    |           |           |           |           |           | US\$        | US\$        | US\$        |                   |
| Proposed annual caps,              |           |           |           |           | 2,144,000 | 2,713,000   | 4,132,000   |             |                   |
| comprising                         |           |           |           |           |           |             |             |             |                   |
| (i) management fee                 |           |           |           |           | 2,144,000 | 2,358,000   | 2,588,000   |             |                   |
| (ii) RONA Bonus                    |           |           |           |           | 0         | 0           | 0           |             |                   |
| (iii) additional performance bonus |           |           |           |           | 0         | 355,000     | 1,544,000   |             |                   |
| Year-on-year growth                |           |           |           |           | 12.5%     | 26.5%       | 52.3%       |             |                   |

<sup>#</sup> As stated in the Letter from the Board, the figure for the 2012 are based on actual management fee for January to September and projections for October to December. No performance bonus is expected to be payable.

The annual cap for 2013 represents an increase by approximately 12.5% from the historical annual fee in 2012. The annual cap for 2014 and 2015 represents an increase by approximately 26.5% and 52.3% from that for 2013 and 2014 respectively. In addition, as advised by the Directors, neither RONA Bonus nor additional performance bonus was paid from 2004 to 2011, or expected to be payable in 2012 and 2013, while additional performance bonus is expected as the Company intends to dispose of certain major investments, resulting in Net Capital Gains, in 2014 and 2015.

As stated in the Letter from the Board and further advised by the Directors, the annual caps are determined with reference to (i) the existing investment portfolio, (ii) the projected increase in investments according to contracted

outstanding capital commitments of approximately US\$5.3 million as at 31 December 2011, comprising approximately US\$4.4 million for investment in unlisted associates, which are engaged in hospital development, property development and used-oil refining industry in the PRC respectively, and approximately US\$1.0 million for unlisted available-for-sale financial asset which invests in mineral energy or related industries in the PRC, and based on the projected realizable profit on the partial disposal of certain major investments which the Company has and intends to dispose of in 2013, 2014 or 2015; (iii) the projected amount of performance fee resulting from the disposal mentioned above; and (iv) the possible fluctuation in the China and Hong Kong stock markets.

The Letter from the Board states that the Company maintained a relatively high proportion of cash balances in 2009 and 2010. As clarified by the Directors, that does not mean that the Company will not make any new investment should there be suitable investment opportunities. The Directors concurred with the view of the Manager that the global economy including that of the PRC would be unstable and could face difficulty and thus adopted a moderate pace of investment, as being reflected on the relatively high proportion of cash balances maintained by the Company of around US\$30 million by the end of 2009 and 2010. The cash balances by the end of 2011 dropped to approximately US\$19 million mainly due to investment in associates in 2011. The projected investment in 2013 is mainly attributable to outstanding capital commitments which were contracted in 2010 and 2011 by the Company. As advised by the Directors, the Company expects to continue to invest available capital mainly in unlisted investment in from 2013 to 2015. The Directors advise that there is no inconsistency between the previous strategy of moderate pace of investment as mentioned above and the investment plan of the Company in 2013, 2014 and 2015.

We have reviewed and discussed with the Management the investment plan of the Company for the next few years up to 31 December 2015, and certain supporting investment agreements and other relevant documents. As stated in the 2010 and 2011 annual report and 2012 interim results announcement of the Company, the Group has shifted resources to investment opportunities, which are either in the revenue stage or had a proven business model. The Company will continue to make every effort to identify promising new investment projects with a primary focus on those related to domestic consumption

or medical-related industries where it believes growth will be stable due to supportive policies promulgated by the Central Government of China. The Directors advise that the Company's investment plan is in line with its strategy.

We have also reviewed the computation of the projected management fee and performance fee payable to the Manager for the three years ending 31 December 2015 as a result of the investment plan mentioned above as provided by the Company, and found that the computation follows the basis as stipulated under the New Supplemental Agreement.

As further advised by the Directors, the performance of the listed investments held by the Company in China and Hong Kong correlates with the performance in the China and Hong Kong stock markets which fluctuate, as evidenced by the Hang Seng Index which dropped by approximately 10% from 21,873 points as at 31 December 2009 to 19,765 points as at 31 May 2010, and then climbed up by nearly 20% in 12 months and closed at 23,684 points on 31 May 2011, and dropped by nearly 21% to 18,690 points as at 30 May 2012. The China stock market also fluctuated as evidenced by the drop in Shanghai Composite A index by over 14% in a year from end of May 2011 to end of May 2012.

Taking into consideration that (i) the existing investment portfolio of the Company; (ii) the investment plan of the Company for the years up to 31 December 2015, in particular, the contracted capital commitment and disposal of certain major investments, resulting in Net Capital Gains and thus additional performance bonus; (iii) the computation of the annual management fee and performance fee for the three years ending 31 December 2015 based on the basis as stipulated under the New Supplemental Agreement and the investment plan of the Company; and (iv) the possible fluctuation in the China and Hong Kong stock markets, we consider that the annual caps, together with the calculation basis, are fair and reasonable as far as the Independent Shareholders are concerned.



**RECOMMENDATION**

Having considered the principal factors and reasons above, we are of the view that the entering into of the New Supplemental Agreement is in line with the ordinary and usual course of business of the Group, the proposed annual caps on remuneration of the Manager and the High Watermark are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole. Therefore, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting to approve the New Supplemental Agreement, the proposed annual caps and the High Watermark.

Yours faithfully,  
For and on behalf of  
**Kingsway Capital Limited**  
**Chu Tat Hoi**  
*Executive Director*

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**

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**2006****(a) Top 10 investments/securities bought for the year:**

|   | <b>Name</b>                                     | <b>Stock code</b> | <b>Investment<br/>amount for<br/>the year<br/>(US\$)</b> | <i>Notes</i> |
|---|---|-------------------|--|--------------|
| 1 | iMedia Holdings Ltd                             | N/A               | 4,000,000  | (a)          |
| 2 | Town Health International Investment<br>Limited | HK: 3886          | 1,203,317  | (b)          |

*Notes:*

- (a) The Company was interested in online business which would provide multi-media content to internet users in China. The Company believed this type of content provision would provide an alternative channel of leisure or entertainment to workers during working hours when their access to TV was limited. The Company made its investment of US\$4 million (carrying value at year end was US\$3,674,957) in iMedia for its 25% equity interest, when it was in the stage of initial development of its on-line magazine business through its platform called iMook. The Company believed the model would generate viewer traffic so as to generate advertising income. The Company was aware the risk of this start-up as severe competition existed for online viewer traffic on digital content including graphic magazines but the Company believed that with the support of the content provision from Jiefang Media Group, an owner of various magazines and publications, iMedia could have an edge over its competitors.
- (b) The Company was interested in investment related to health care business. The Company considered the market price undervalued the business and the investment would generate a reasonable return.

*Remark:*

There were only 2 investments bought for the year.

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**


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**(b) Top 10 investments/securities at year end date:**

|   | Name  | Stock code   | Carrying amount<br>(US\$) | % of Shareholding | Common directorship*              |
|---|---|--------------|---------------------------|-------------------|-----------------------------------|
| 1 | First Shanghai Investments Limited              | HK: 227      | 38,208,500                | 20.75             | Lo Yuen Yat**;<br>Yeung Wai Kin** |
| 2 | Shandong Lukang Pharmaceutical Co. Ltd.         | SH: 600789   | 24,784,581                | 11.46             | Bao Feng***                       |
| 3 | Citic Capital China Property Investment Fund    | N/A          | 17,875,101                | 17.42             | Nil                               |
| 4 | KongZhong Corporation                           | NASDAQ: KONG | 13,897,459                | 1.22              | Nil                               |
| 5 | Konka Group Company Ltd.                        | SZ: 000016   | 5,709,970                 | 2.34              | Nil                               |
| 6 | iMedia Holdings Ltd.                            | N/A          | 3,674,957                 | 25.00             | Nil                               |
| 7 | Beijing PanAm Intl. Aviation Academy Co. Ltd.## | N/A          | 1,710,000                 | 2.54              | Xu Xiao Feng**                    |
| 8 | Town Health International Investment Limited    | HK: 3886     | 1,203,317                 | 0.77              | Nil                               |
| 9 | Citic Capital China Property Partners Ltd       | N/A          | 250                       | 25.00             | Nil                               |

*Remark:*

There were only 9 investments in total.

\* common directorship refers to director(s) of the Company and/or the Manager also being director(s) of the investee company

\*\* director of both the Company and the Manager

\*\*\* director of the Manager

## First Shanghai Group held a 3.28% equity interest

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**


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**(c) Top 3 investments/securities realized gain and basis for disposal:**

|   | <b>Name</b>                         | <b>Stock code</b> | <b>Gain amount</b><br><i>(US\$)</i> | <b>Basis for disposal</b>                       |
|---|-------------------------------------|-------------------|-------------------------------------|---|
| 1 | Happy Care Investment Ltd           | N/A               | 231,942                             | To dispose when the market price was favourable |
| 2 | Sinochem Hong Kong Holdings Limited | HK: 297           | 51,815                              | To dispose when the market price was favourable |
| 3 | HC International Inc.               | HK: 8292          | 11,883                              | To dispose when the market price was favourable |

**(d) Top 3 investments/securities realized loss and basis for disposal:**

|   | <b>Name</b>                                 | <b>Stock code</b> | <b>Loss amount</b><br><i>(US\$)</i> | <b>Basis for disposal</b> |
|---|---|-------------------|-------------------------------------|---------------------------|
| 1 | Disposal of subsidiary — Twin Tiger Limited | N/A               | (341,700)                           | To cut further loss.      |
| 2 | Loss on disposal of KongZhong Corporation   | NASDAQ:<br>KONG   | (1,542,797)                         | (a)                       |

- (a) For investment in KongZhong, which was classified as financial assets at fair value through profit and loss, the balance was adjusted to the market price at each financial period end. Loss incurred for the year was mainly due to the high market price reached as at 31st Dec 2005 of US\$12.5 per ADS yet the average selling price of US\$10.6 per ADS was still higher than the market price as at 31st Dec 2006 of US\$9.76 per ADS and the original cost of US\$0.34 per ADS.

**(e) Investments/securities recognized impairment losses and basis of making provision:**

No impairment provision made for the year.

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**


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**2007**
**(a) Top 10 investments/securities bought for the year:**

|   | <b>Name</b>                              | <b>Stock code</b>          | <b>Investment<br/>amount for<br/>the year<br/>(US\$)</b> | <i>Notes</i> |
|---|--|----------------------------|--|--------------|
| 1 | PingAn Defeng Collective Fund Trust Plan | N/A                        | 11,642,753   | (a)          |
| 2 | Canton Property Investment Ltd.          | London: CPIL<br>(Delisted) | 9,485,770  | (b)          |
| 3 | Smartbuy Group Holdings Ltd.             | N/A                        | 4,300,000  | (c)          |
| 4 | China Alpha Fund                         | N/A                        | 2,660,453  | (d)          |

*Notes:*

- (a) In early 2007, the stock market in China had been in a depressed state for nearly two years and the Company assessed the overall market had reached the bottom and started to show signs of recovery. With material cash in hand, the Company believed an investment in this fund which invested mainly in PRC listed securities would generate return much higher than interest income derived from deposits at banks.
- (b) The Company believed the investment return on the China real estate market would be lucrative and relatively low risk due to strong demand arising from the progressing urbanization. Prior to its listing on the Alternative Investment Market of the London Stock Exchange, the Company made its investment in Canton Property Investment Ltd. which property projects were mainly situated in city of Guangzhou in PRC.
- (c) The Company, having previous successful investment in the internet related industry like KongZhong Corporation, decided to pursue further investment opportunities in this area. The Company made an equity investment of US\$4.3 million (carrying value at year end was US\$4,187,238) in Smartbuy Group Holdings Ltd. which was mainly engaged in provision of online sale of consumer products and service through internet and special-designed terminals to consumers in China. The Company believed those special-designed terminals could serve consumers in location where online services were not readily available like hospitals or shopping malls.
- (d) In early 2007, the stock market in China had been in a depressed state for nearly two years and the Company assessed the overall market had reached the bottom and started to show signs of recovery. In view of material surplus cash on hand, the Company believed an investment in this fund which invested mainly in PRC listed securities would generate return much higher than interest income derived from deposits at banks.

*Remark:*

There were only 4 investments bought for the year.

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**


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**(b) Top 10 investments/securities at year end date:**

|    | Name                                     | Stock code                 | Carrying amount<br>(US\$) | % of Shareholding | Common directorship*              |
|----|--|----------------------------|---------------------------|-------------------|-----------------------------------|
| 1  | Shandong Lukang Pharmaceutical Co. Ltd.  | SH: 600789                 | 62,467,268                | 11.46             | Lau On Kwok***                    |
| 2  | First Shanghai Investments Limited       | HK: 227                    | 56,249,522                | 17.80             | Lo Yuen Yat**;<br>Yeung Wai Kin** |
| 3  | PingAn Defeng Collective Fund Trust Plan | N/A                        | 11,642,753                | N/A               | Nil                               |
| 4  | Canton Property Investment Ltd.          | London: CPIL<br>(Delisted) | 9,485,770                 | 1.36              | Nil                               |
| 5  | Smartbuy Group Holdings Ltd.             | N/A                        | 4,187,238                 | 15.56             | Lo Yuen Yat**;<br>Xu Xiao Feng**  |
| 6  | iMedia Holdings Ltd                      | N/A                        | 2,799,249                 | 25.00             | Nil                               |
| 7  | China Alpha Fund##                       | N/A                        | 2,660,453                 | 1.65              | Nil                               |
| 8  | KongZhong Corporation                    | NASDAQ: KONG               | 2,633,486                 | 1.22              | Nil                               |
| 9  | China Telecom Corporation Ltd.           | HK: 728                    | 1,430,347                 | —                 | Nil                               |
| 10 | Holygene                                 | N/A                        | 246,275                   | 30.00             | Lo Yuen Yat**;<br>Lao Yuan Yuan** |

*Remarks:*

\* common directorship refers to director(s) of the Company and/or the Manager also being director(s) of the investee company

\*\* director of both the Company and the Manager

\*\*\* director of the Manager

## First Shanghai Group was a passive investor in this fund, holding 12.27%

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**

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**(c) Top 3 investments/securities realized gain and basis for disposal:**

|   | <b>Name</b>                                  | <b>Stock code</b> | <b>Gain amount</b><br><i>(US\$)</i> | <b>Basis for disposal</b>                       |
|---|--|-------------------|-------------------------------------|---|
| 1 | Konka Group                                  | SZ: 000016        | 1,416,630                           | To dispose when the market price was favourable |
| 2 | HSBC China Dragon Fund                       | N/A               | 919,492                             | To dispose when the market price was favourable |
| 3 | Town Health International Investment Limited | HK: 3886          | 694,890                             | To dispose when the market price was favourable |

**(d) Top 3 investments/securities realized loss and basis for disposal:**

|   | <b>Name</b>                             | <b>Stock code</b> | <b>Loss amount</b><br><i>(US\$)</i> | <b>Basis for disposal</b>  |
|---|---|-------------------|-------------------------------------|--|
| 1 | Bosideng International Holdings Limited | HK: 3998          | (16,615)                            | To dispose when the then market price was expected to drop further |
| 2 | Sinotrans                               | HK: 368           | (8,749)                             | To dispose when the then market price was expected to drop further |

**(e) Investments/securities recognized impairment losses and basis of making provision:**

*For available-for-sale financial asset:*

Provision was made on investment in Beijing PanAm International Aviation Academy Company Limited, amounting to US\$1,710,000, due to the poor financial performance of the company.

*For other receivable:*

Provision was made on amount due from GreatGate China Lottery Technology Company Limited, amounting to US\$2,501,591, due to the poor financial performance of the company.

**2008**

**(a) Top 10 investments/securities bought for the year:**

|   | <b>Name</b>            | <b>Stock code</b> | <b>Investment amount for the year</b><br>(US\$) | <i>Notes</i> |
|---|------------------------|-------------------|---|--------------|
| 1 | Loan to UniMedia       | N/A               | 6,294,095                                       | (a)          |
| 2 | ICBC                   | HK: 1398          | 931,819   | (b)          |
| 3 | HSBC                   | HK: 5             | 429,837   | (b)          |
| 4 | China Railway Gp. Ltd. | HK: 390           | 207,871   | (b)          |
| 5 | CNOOC                  | HK: 883           | 67,262  | (b)          |

*Notes:*

- (a) The Company noted the trend that the China Government encouraged the domestic consumption so as to reduce reliance on its investment to drive its economy. The Company believed advertising industry was to be benefited from such government initiative. Unimedia engaged in provision of outdoor advertising services through a network of advertising poster frames placed at lobby and floors of selected commercial buildings. The Company believed the business model would be viable but also realized there was a risk of continuing funding requirement as major advertisers would require the network of commercial buildings be spread out over all major cities of China, which would entail huge resources and likely subsequent of fund raising requirement . In view of the risk, the Company agreed to provide a loan of RMB 43 million at interest rate of 5% secured by all assets of Unimedia. The loan also carried an option entitling the Company to acquire an interest of 23.45% (preference B shares) in Unimedia upon the maturity of the loan.



## APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012

- (b) The Hong Kong stock market crashed from a level of HSI 31,958 in November 2007 down to HSI 10,676 in October 2008 when the Company considered the market price of the investment was highly undervalued and considered the investment would yield good return for medium to long term.

*Remark:*

There were only 5 investments bought for the year.

### (b) Top 10 investments/securities at year end date:

|    | Name                                     | Stock code   | Carrying amount<br>(US\$) | % of Shareholding | Common directorship*              |
|----|--|--------------|---------------------------|-------------------|-----------------------------------|
| 1  | First Shanghai Investments Limited       | HK: 227      | 49,086,198                | 17.74             | Lo Yuen Yat**;<br>Yeung Wai Kin** |
| 2  | Shandong Lukang Pharmaceutical Co. Ltd.  | SH: 600789   | 31,681,278                | 11.46             | Lau On Kwok***                    |
| 3  | PingAn Defeng Collective Fund Trust Plan | N/A          | 5,124,564                 | N/A               | Nil                               |
| 4  | KongZhong Corporation                    | NASDAQ: KONG | 1,448,634                 | 1.22              | Nil                               |
| 5  | China Alpha Fund##                       | N/A          | 1,326,162                 | 1.98              | Nil                               |
| 6  | ICBC                                     | HK: 1398     | 931,819                   | —                 | Nil                               |
| 7  | WSP                                      | NASDAQ: WH   | 718,455                   | 0.61              | Nil                               |
| 8  | China Telecom Corporation Ltd.           | HK: 728      | 671,226                   | —                 | Nil                               |
| 9  | HSBC                                     | HK: 5        | 429,837                   | —                 | Nil                               |
| 10 | China Railway Gp. Ltd.                   | HK: 390      | 207,871                   | —                 | Nil                               |

*Remark:*

\* common directorship refers to director(s) of the Company and/or the Manager also being director(s) of the investee company

\*\* director of the Company and the Manager

\*\*\* director of the Manager

## First Shanghai Group was a passive investor in this fund, holding 14.70%

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**

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**(c) Top 3 investments/securities realized gain and basis for disposal:**

No realized gain recorded on disposals.

**(d) Top 3 investments/securities realized loss and basis for disposal:**

|   | <b>Name</b> | <b>Stock code</b> | <b>Loss amount</b><br><i>(US\$)</i> | <b>Basis for disposal</b>                                  |
|---|-------------|-------------------|-------------------------------------|--|
| 1 | HSBC        | HK: 5             | (11,598)                            | To dispose when the then market price was expected to drop |

**(e) Investment/securities recognized impairment losses and basis of making provision:*****For investments in associates:***

Provision was made against investments in associates: iMedia Holdings Limited and Smartbuy Group Holdings Ltd. amounting to US\$9,791,983.

Due to the poor financial performance of the associates, management considered there is no sign of recovery of the investments and provision for impairment loss was made accordingly.

***For available-for-sale financial asset:***

Provision was made on investment in Canton Property, which was suspended from trading on London Stock Exchange from 2nd Oct 2008 and delisted from the AIM market in 2009. The provision made amounted to US\$7,974,704.

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**

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**2009****(a) Top 10 investments/securities bought for the year:**

|   | <b>Name</b>                                   | <b>Stock code</b> | <b>Investment<br/>amount for<br/>the year<br/>(US\$)</b> | <b>Notes</b> |
|---|---|-------------------|--|--------------|
| 1 | China Pacific Insurance (Group) Co. Ltd.      | HK: 2601          | 11,028,371   | (a)          |
| 2 | Holygene Corporation Convertible Note         | N/A               | 2,200,000  | (b)          |
| 3 | Loan to Junhui International Holdings Limited | N/A               | 1,463,089  | (c)          |

*Notes:*

- (a) The Company subscribed 2,767,800 H shares of China Pacific Insurance (Group) Co. Ltd at HK\$28 each upon its initial public offering in December 2009. It was considered the return of the investment over the medium to long term would be better than returns then available in the money market.
- (b) The Company believed the pharmaceutical industry was an expanding industry due to the aging of population of the globe. The Company agreed to acquire a US\$2.2 million convertible note in Holygene Corporation (“Holygene”) to finance a portion of the funding to take an existing drug, EPO, then manufactured and sold in China and other less developed countries, to develop the drug as a bio-similar for distribution in Europe where the market size would be significantly larger. The conversion feature of the convertible note would allow the Company to benefit from the upside potential of Holygene if the drug was able to pass the certification required by Europe. The Company was aware of the risk that the certification might fail or the period for certification might be unreasonably prolonged in which situation the Company may exercise its right to call for redemption.
- (c) The Company agreed to provide a sum of RMB43 Million to Junhui International Holdings Limited (“Junhui”) for its construction of a dredger as the Company assessed the dredging industry was booming and the transaction allowed the Company to have interest income substantially in excess of the then market interest rate, with collateral pledged to protect the principal. The Company might also benefit from the upside potential of Junhui or the industry by exercising the warrants attached to the loan to subscribe up to 15% of the equity of the borrower at any time or upon the initial public offering of Junhui. The investment amount for the year was drawdown made based on construction in progress of the dredger and represented a portion of the total amount committed.

*Remark:*

There were only 3 investments bought for the year.

## APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012

### (b) Top 10 investments/securities at year end date:

| Name  | Stock code      | Cost<br>(US\$) | Carrying<br>amount<br>(US\$) | % of<br>share-<br>holding | Gross<br>underlying<br>earnings<br>(US\$) | Investee's<br>NAV<br>(US\$) | Attributable<br>net assets<br>(US\$) | Description of<br>business   | Common<br>directorship*                                     |
|---|-----------------|----------------|------------------------------|---------------------------|---|-----------------------------|--------------------------------------|--|---|
| 1 Shandong Lukang<br>Pharmaceutical<br>Co. Ltd.               | SH: 600789      | 9,594,203      | 63,594,122                   | 10.95                     | 5,959,404                                 | 219,879,117                 | 24,076,763                           | Manufacture and sale<br>of pharmaceutical<br>products                        | Lau On Kwok***  |
| 2 First Shanghai<br>Investments<br>Limited                    | HK: 227         | 13,770,330     | 54,379,517                   | 17.71                     | 23,824,113                                | 355,203,224                 | 62,906,491                           | Brokerage, corporate<br>finance, property<br>development and<br>investment   | Lo Yuen Yat**;<br>Yeung Wai Kin**                           |
| 3 China Pacific<br>Insurance<br>(Group) Co. Ltd.              | HK: 2601        | 10,094,180     | 11,028,371                   | 0.03                      | 1,094,784,647                             | 11,085,994,726              | 3,325,798                            | Insurance services   | Nil   |
| 4 PingAn Defeng<br>Collective Fund<br>Trust Plan##            | N/A             | 6,940,436      | 8,228,831                    | 32.06                     | N/A                                       | 17,119,524                  | 5,489,276                            | Stock investment fund  | Nil   |
| 5 China Alpha<br>Fund###                                      | N/A             | 1,280,443      | 2,719,907                    | 1.98                      | 1,620,940                                 | 91,838,277                  | 1,819,311                            | Stock investment fund  | Nil   |
| 6 Holygene<br>Corporation<br>Convertible<br>Note####          | N/A             | 2,200,000      | 2,339,628                    | N/A                       | N/A                                       | N/A                         | N/A                                  | Pharmaceutical<br>research and<br>development<br>services                    | Lo Yuen Yat**;<br>Lao Yuan Yuan**<br>Chan Suit<br>Khown *** |
| 7 ICBC  | HK: 1398        | 749,109        | 1,469,865                    | —                         | 18,956,343,393                            | 99,609,434,515              | 5,278                                | Personal and corporate<br>commercial banking<br>services in China            | Nil   |
| 8 Loan to Junhui<br>International<br>Holdings<br>Limited##### | N/A             | 1,463,089      | 1,463,089                    | N/A                       | N/A                                       | N/A                         | N/A                                  | Owner of a dredger<br>(construction phase)<br>for dredging project<br>in PRC | Nil   |
| 9 KongZhong<br>Corporation                                    | NASDAQ:<br>KONG | 22,761         | 822,535                      | 0.19                      | 12,583,000                                | 173,040,000                 | 328,776                              | Wireless value-added<br>services   | Nil   |
| 10 China Telecom<br>Corporation Ltd.                          | HK: 728         | 1,285,826      | 752,031                      | —                         | 2,325,959,566                             | 32,612,510,987              | 3,261,251                            | Basic<br>telecommunications<br>services                                      | Nil   |

\* common directorship refers to director(s) of the Company and/or the Manager also being director(s) of the investee company

\*\* director of both the Company and the Manager

\*\*\* director of the Manager

## open-ended fund, financial data based on annual report ended each year on 28 February

### open-ended fund, financial data based on annual report ended each year on 30 June; First Shanghai Group was a passive investor in this fund, holding 14.71%

## APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012

#### convertible note; First Shanghai Group held a 51.29% equity interest but the entity was deemed to be its associated company as the First Shanghai Group held less than half of the voting power of the entity

##### secured loan with attached warrants exercisable for not more than 15% common equity of borrower at the pre-money valuation of the borrower at RMB 30 million. The warrants will expire on the earlier of (1) the disposal of all or substantially all of its property or business or a merger in which more than 50% of its voting power is disposed of or (2) its IPO

### (c) Top 3 investments/securities realized profit and basis for disposal:

| Name   | Stock code | Gain amount<br>(US\$) | Basis for disposal                            |
|--|------------|-----------------------|---|
| 1 KongZhong Corporation                      | KONG       | 2,574,666             | Disposed when the market price was favourable |
| 2 WSP Holdings Ltd.                          | WH         | 147,817               | Disposed when the market price was favourable |
| 3 Shandong Lukang<br>Pharmaceutical Co. Ltd. | SH: 600789 | 5,431                 | Disposed when the market price was favourable |

### (d) Top 3 investments/securities realized loss and basis for disposal:

No realized loss incurred from the disposals.

### (e) Investments/securities recognized impairment losses and basis of making provision:

| Name of investment               | Cost<br>(RMB) | Amount of provision made<br>(US\$) | Reason   |
|----------------------------------|---------------|------------------------------------|--|
| 1 Amount due from Smartbuy Group | 1,000,000     | 146,499                            | Management considered the chance of recovery of the balance was remote |

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**

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**2010****(a) Top 10 investments/securities bought for the year:**

|   | <b>Name</b>   | <b>Stock code</b> | <b>Investment<br/>amount for<br/>the year<br/>(US\$)</b> | <i>Notes</i> |
|---|---|-------------------|--|--------------|
| 1 | Loan to Junhui International Holdings Limited               | N/A               | 5,077,034  | (a)          |
| 2 | Red Stone Fund  | N/A               | 2,281,439  | (b)          |
| 3 | Shanghai Intl Medical Centre Investment Management Co. Ltd. | N/A               | 1,520,959  | (c)          |

*Notes:*

- (a) The Company agreed in 2009 to provide a sum of RMB43 Million to Junhui International Holdings Limited (“Junhui”) for its construction of a dredger as the Company assessed the dredging industry was booming and the transaction allowed the Company to have interest income substantially in excess of the then market interest rate, with collateral pledged to protect the principal. The Company might also benefit from the upside potential of Junhui or the industry by exercising the warrants attached to the loan to subscribe up to 15% of the equity of the borrower at any time or upon the initial public offering of the borrower. The investment amount for the year was drawdown made based on the construction in progress of dredger and represented a portion of the total amount committed. All committed amount was made.
- (b) The Company assessed the rare earth industry in China was lucrative and was invited to participate in the investment in Red Stone Fund (“the Fund”). The Company believed it was a good opportunity to enter into this industry and in addition to the return of the Fund itself, the Company believed there would be currency appreciation during the investment holding period. The Company committed to invest RMB30 million for 5% of the equity. The investment amount for the year was a portion of the total amount committed.
- (c) The Company places great emphasis on medical related industries as one of its focuses due to relaxed restrictions and supporting policies of the Central Government of China. The Company believed an equity investment in a hospital in Shanghai, expected to be completed in late 2013, would generate stable return which would moderate the risk profile of the entire investment portfolio. The Company committed to invest RMB50 million for 20% indirect equity. The investment amount for the year was a portion of the committed total amount.

*Remark:*

There were only 3 investments bought for the year.

## APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012

### (b) Top 10 investments/securities at year end date:

| Name  | Stock code | Cost<br>(US\$) | Carrying<br>amount<br>(US\$) | % of<br>share-<br>holding | Gross<br>underlying<br>earnings<br>(US\$) | Investee's<br>NAV<br>(US\$) | Attributable<br>net assets<br>(US\$) | Description of<br>business  | Common<br>directorship*           |
|---|------------|----------------|------------------------------|---------------------------|---|-----------------------------|--------------------------------------|---|-----------------------------------|
| 1 Shandong Lukang<br>Pharmaceutical<br>Co. Ltd.                                       | SH: 600789 | 8,750,181      | 75,136,028                   | 9.98                      | 19,713,350                                | 255,011,083                 | 25,450,106                           | Manufacture and sale<br>of pharmaceutical<br>products                             | Lau On Kwok***                    |
| 2 First Shanghai<br>Investments<br>Limited  | HK: 227    | 13,770,330     | 56,427,526                   | 17.71                     | 16,767,566                                | 369,989,336                 | 65,525,111                           | Brokerage, corporate<br>finance, property<br>development and<br>investment        | Lo Yuen Yat**;<br>Yeung Wai Kin** |
| 3 China Pacific<br>Insurance<br>(Group) Co. Ltd.                                      | HK: 2601   | 10,094,180     | 11,486,123                   | 0.03                      | 1,317,910,811                             | 12,403,571,211              | 3,721,071                            | Insurance services  | Nil                               |
| 4 PingAn Defeng<br>Collective Fund<br>Trust Plan##                                    | N/A        | 6,940,436      | 8,137,890                    | 30.38                     | N/A                                       | 25,431,283                  | 7,726,631                            | Stock investment fund   | Nil                               |
| 5 Loan to Junhui<br>International<br>Holdings<br>Limited###                           | N/A        | 6,540,123      | 6,540,123                    | N/A                       | N/A                                       | N/A                         | N/A                                  | Owner of a dredger<br>(construction phase)<br>for dredging project<br>in PRC      | Nil                               |
| 6 Holygene<br>Corporation<br>Convertible<br>Note####                                  | N/A        | 2,200,000      | 3,751,527                    | N/A                       | N/A                                       | N/A                         | N/A                                  | Pharmaceutical<br>research and<br>development<br>services                         | Lo Yuen Yat**;<br>Lao Yuan Yuan** |
| 7 China Alpha<br>Fund###  | N/A        | 1,280,443      | 3,031,097                    | 1.52                      | 32,181,112                                | 163,272,219                 | 2,486,424                            | Stock investment fund   | Nil                               |
| 8 Red Stone Fund  | N/A        | 2,205,299      | 2,281,439                    | 6.00                      | (1,640,596)                               | 36,763,614                  | 2,205,817                            | Investments in<br>mineral, energy or<br>related industries in<br>the PRC          | Nil                               |
| 9 Shanghai<br>International<br>Medical Center<br>Investment<br>Management Co.<br>Ltd. | N/A        | 1,520,959      | 1,520,959                    | 20.00                     | (5,064)                                   | 7,604,794                   | 1,520,959                            | Hospital development<br>project in Pudong,<br>Shanghai (initial<br>stage)         | Lo Yuen Yat**                     |
| 10 ICBC   | HK: 1398   | 784,824        | 1,375,955                    | —                         | 25,251,718,683                            | 124,970,645,495             | 662,290                              | Provision of personal<br>and corporate<br>commercial banking<br>services in China | Nil                               |

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## APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012

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- \* common directorship refers to director(s) of the Company and/or the Manager also being director(s) of the investee company
- \*\* directors of both the Company and the Manager
- \*\*\* director of the Manager
- ## open-ended fund, financial data based on annual report ended each year on 28 February
- ### secured loan with attached warrants exercisable for not more than 15% common equity of borrower at the pre-money valuation of the borrower at RMB 30 million. The warrants will expire on the earlier of (1) the disposal of all or substantially all of its property or business or a merger in which more than 50% of its voting power is disposed of or (2) its IPO
- #### open-ended fund, financial data based on annual report ended each year on 30 June; First Shanghai Group was a passive investor in this fund, holding 11.27%
- ##### convertible note; First Shanghai Group held a 51.29% equity interest but the entity was deemed to be its associated company as the First Shanghai Group held less than half of the voting power of the entity

### (c) Top 3 investments/securities realized profit and basis for disposal:

| Name   | Stock code | Gain amount<br>(US\$) | Basis for disposal                            |
|--|------------|-----------------------|---|
| 1 Shandong Lukang<br>Pharmaceutical Co. Ltd. | SH: 600789 | 7,138,277             | Disposed when the market price was favourable |
| 2 Agricultural Bank of<br>China Limited      | HK: 1288   | 243,353               | Disposed when the market price was favourable |
| 3 SITC                                       | HK: 1308   | 32,493                | Disposed when the market price was favourable |

### (d) Top 3 investments/securities realized loss and basis for disposal:

No realized loss incurred from the disposals.



## APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012

### (e) Investments/securities recognized impairment losses and basis of making provision:

|     | Name of investment  | Cost<br>(RMB) | Amount of<br>provision<br>made<br>(US\$) | Reason |
|-----|---|---------------|--|--------|
| 1   | Loan and interest receivable from UniMedia <sup>@@</sup>  | 43,000,000    | 6,906,738                                | (a)    |
| (a) | Provision was made in view of the fact that UniMedia ceased its operation in Oct 2010 and there was no significant improvement in its financial position. Management considered the chance of recovery of the balance was remote. |               |  |        |
|     | <sup>@@</sup> First Shanghai Group held a RMB5 million convertible bond of UniMedia   |               |  |        |

## 2011

### (a) Top 10 investments/securities bought for the year:

|   | Name   | Stock code | Investment<br>amount for<br>the year<br>(US\$) | Notes |
|---|--|------------|--|-------|
| 1 | Ragentek Technology Group Limited                                    | N/A        | 7,317,557                                      | (a)   |
| 2 | Shanghai International Medical Center Investment Management Co. Ltd. | N/A        | 6,383,521                                      | (b)   |
| 3 | Goldeneye Interactive Limited  | N/A        | 3,850,000                                      | (c)   |
| 4 | Red Stone Fund   | N/A        | 1,372,956                                      | (d)   |

#### Notes:

- (a) The Company acquired a 6.63% equity interest in Ragentek Technology Group Limited, a China mobile handset manufacturer, shortly prior to its application for an initial public offering when the Company was impressed with its growth and financial performance. Its application for initial public offering was later terminated due to the dramatic worsening of stock market conditions.
- (b) The Company believed an equity investment in a hospital in Shanghai, expected to be completed in late 2013, would generate stable return which would moderate the risk profile of the entire investment portfolio. The Company committed in 2010 to invest RMB50 million for 20% indirect equity. The Company acquired a further 5% indirect equity in the investment in 2011 for RMB2.5 million. The investment amount for the year represented the sum of the acquisition consideration of the newly acquired 5% indirect equity together with a portion of the committed total amount of the 25% indirect equity presently held. Outstanding committed amount payable was RMB12.5 million.

## APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012

- (c) The Company agreed to invest a total of US\$5.5 million for 28.48% interest (preferred B shares) in Goldeneye Interactive Limited (“Goldeneye”). The Company believed the founders of Goldeneye, with a proven track record would be able to build up the business, a search engine portal for China property market information, to increase its viewer traffic at exponential growth rate after funding. The Company believed the business model Goldeneye was pursuing was viable, but the Company also envisaged the high risk of Goldeneye as the property market slowed substantially due to various restrictive measures implemented by the Central Government of China. The Company imposed various conditions to spread and minimize the risks by bundling founder and first round investors to co-invest and imposing milestone performance tests in light of the risk involved. The investment amount for the year was a portion of the committed total amount and further investment would be made only when the required performance milestones are achieved.
- (d) The Company assessed the rare earth industry in China was lucrative and was invited to participate by the general partner of Red Stone Fund (“the Fund”) in 2010. The Company believed it was a good opportunity to enter into this industry and in addition to the return of the Fund itself, the Company believed there would be foreign exchange appreciation during the investment holding period. The Company committed to invest RMB30 million for 5% of the equity. The investment amount for the year was a portion of the committed total amount. Outstanding committed amount payable was RMB6 million.

### Remark:

There were only 4 investments/securities bought for the year.

### (b) Top 10 investments/securities at year end date:

| Name  | Stock code | Cost<br>(US\$) | Carrying<br>amount<br>(US\$) | % of<br>share-<br>holding | Gross<br>underlying<br>earnings<br>(US\$) | Investee's<br>NAV<br>(US\$) | Attributable<br>net assets<br>(US\$) | Description of<br>business  | Common<br>directorship*           |
|---|------------|----------------|------------------------------|---------------------------|---|-----------------------------|--------------------------------------|---|-----------------------------------|
| 1 First Shanghai<br>Investments<br>Limited  | HK: 227    | 13,770,330     | 55,345,629                   | 17.71                     | 3,697,645                                 | 353,219,510                 | 62,537,514                           | Brokerage, corporate<br>finance, property<br>development and<br>investment    | Lo Yuen Yat**;<br>Yeung Wai Kin** |
| 2 Shandong Lukang<br>Pharmaceutical<br>Co. Ltd.                                       | SH: 600789 | 8,750,181      | 45,285,167                   | 9.98                      | 2,385,298                                 | 269,076,820                 | 26,853,867                           | Manufacture and sale<br>of pharmaceutical<br>products                         | Nil                               |
| 3 Shanghai<br>International<br>Medical Center<br>Investment<br>Management Co.<br>Ltd. | N/A        | 7,983,794      | 7,947,762                    | 25.00                     | —   | 23,832,221                  | 5,958,055                            | Hospital development<br>project in<br>Pudong, Shanghai<br>(development stage) | Lo Yuen Yat**                     |

## APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012

| Name   | Stock code | Cost<br>(US\$) | Carrying<br>amount<br>(US\$) | % of<br>share-<br>holding | Gross<br>underlying<br>earnings<br>(US\$) | Investee's<br>NAV<br>(US\$) | Attributable<br>net assets<br>(US\$) | Description of<br>business   | Common<br>directorship* |
|--|------------|----------------|------------------------------|---------------------------|---|-----------------------------|--------------------------------------|--|-------------------------|
| 4 Ragentek<br>Technology<br>Group Limited##                  | N/A        | 7,317,557      | 7,317,557                    | 6.63                      | ^^9,089,133                               | ^^26,028,758                | ^^1,725,707                          | Manufacturer of<br>original design<br>mobile phone                           | Nil                     |
| 5 PingAn Defeng<br>Collective Fund<br>Trust Plan###          | N/A        | 6,940,436      | 7,024,944                    | 31.58                     | N/A                                       | 25,435,253                  | 8,033,650                            | Stock investment fund  | Nil                     |
| 6 Loan to Junhui<br>International<br>Holdings<br>Limited#### | N/A        | 6,831,903      | 6,831,903                    | N/A                       | N/A                                       | N/A                         | N/A                                  | Owner of a dredger<br>(construction phase)<br>for dredging project<br>in PRC | Chan Suit Khown         |
| 7 China Pacific<br>Insurance<br>(Group) Co. Ltd.             | HK: 2601   | 5,427,472      | 4,234,591                    | 0.02                      | 1,320,781,697                             | 12,401,493,486              | 2,480,299                            | Insurance services   | Nil                     |
| 8 Goldeneye<br>Interactive<br>Limited                        | N/A        | 3,850,000      | 3,565,617                    | 22.37                     | ^(1,906,907)                              | ^^3,394,492                 | ^^759,348                            | Web portal<br>specialising in<br>online real estate<br>information           | Nil                     |
| 9 Red Stone Fund   | N/A        | 3,578,254      | 6,814,015                    | 6.00                      | (1,868,797)                               | 59,970,004                  | 3,598,200                            | Investments in<br>mineral, energy or<br>related industries in<br>the PRC     | Nil                     |
| 10 China Alpha<br>Fund#####                                  | N/A        | 1,280,443      | 2,730,350                    | 1.27                      | 20,949,491                                | 223,404,641                 | 2,846,908                            | Stock investment fund  | Nil                     |

\* common directorship refers to director(s) of the Company and/or the Manager also being director(s) of the investee company

\*\* director of both the Company and Manager

## First Shanghai Group held an equity interest of 3.24%

### open-ended fund, financial data based on annual report ended each year on 28 February

#### secured loan with attached warrants exercisable for not more than 15% common equity of borrower at the pre-money valuation of the borrower at RMB 30 million. The warrants will expire on the earlier of (1) the disposal of all or substantially all of its property or business or a merger in which more than 50% of its voting power is disposed of or (2) its IPO

##### open-ended fund, financial data based on annual report ended each year on 30 June; First Shanghai Group was a passive investor in this fund, holding 9.43%

^^ based on unaudited consolidated financial statements

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**

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**(c) Top 3 investments/securities realized profit and basis for disposal:**

| Name  | Stock code | Gain<br>amount<br>(US\$) | Basis for disposal                                 |
|---|------------|--------------------------|--|
| 1 China Pacific Insurance<br>(Group) Co. Ltd. | HK: 2601   | 818,868                  | To dispose when the market price<br>was favourable |
| 2 KongZhong Corporation                       | KONG       | 193,978                  | To dispose when the market price<br>was favourable |

*Remark:*

There were only 2 disposals for the year.

**(d) Top 3 investments/securities realized loss and basis for disposal:**

No realized loss incurred from the disposals.

**(e) Investments/securities recognized impairment losses and basis of making provision:**

No impairment loss made.

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**APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012**

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**2012 (for the half year ended 30 June 2012)**

**(a) Top 10 investments/securities bought for the period:**

|   | <b>Name</b>   | <b>Stock code</b> | <b>Invested<br/>amount for<br/>the period<br/>(US\$)</b> | <i>Notes</i> |
|---|---|-------------------|--|--------------|
| 1 | Shanghai International Medical Center<br>Investment Management Co. Ltd. | N/A               | 1,965,502  | (a)          |
| 2 | Shanghai Moxing Environmental Science<br>and Technology Co., Ltd        | N/A               | 230,133  | (b)          |

*Notes*

(a) The Company believed an equity investment in a hospital in Shanghai, expected to be completed in late 2013, would generate stable return which would moderate the risk profile of the entire investment portfolio. The investment amount for the period represented portion of committed amount. The outstanding committed amount payable is RMB12.5 million.

(b) the Company made its first tranche of investment of RMB1.45 million in MoxingTech Ltd., an early-stage technology and services company that provides waste oil recycling services for transportation and industrial customers. It has developed a proprietary, patented oil filtration technology that recycles waste oil without any degradation in quality. The Company believed an venture capital seeded money set for recycling industry would be a starting point for the Company to prepare for future investment in this expanding industry. The total investment will be RMB4.65 million for an equity interest of 29.86%, subject to its achieving certain milestone performance.

## APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012

### (b) Top 10 investments/securities at period end date:

| Name   | Stock code | Cost<br>(US\$) | Carrying<br>value<br>(US\$) | % of<br>shareholding | Gross<br>underlying<br>earnings<br>(US\$)<br>%% | Investee's<br>NAV<br>(US\$) | Attributable<br>net assets<br>(US\$) | Description of<br>business  | Common<br>directorship*                             |
|--|------------|----------------|-----------------------------|----------------------|---|-----------------------------|--------------------------------------|---|---|
| 1 First Shanghai Investments Limited                                   | HK: 227    | 13,770,330     | 55,079,146                  | 18%                  | (4,873,157)                                     | 346,874,046                 | 61,414,050                           | Brokerage, corporate finance, property development and investment   | Lo Yuen Yat**;<br>Yeung Wai Kin**                   |
| 2 Shandong Lukang Pharmaceutical Co. Ltd.                              | SH: 600789 | 8,750,181      | 44,968,013                  | 10%                  | (11,251,429)                                    | 258,632,558                 | 25,811,529                           | Manufacture and sale of pharmaceutical products                     |   |
| 3 Shanghai International Medical Center Investment Management Co. Ltd. | N/A        | 9,869,982      | 9,812,002                   | 25%                  | N/A   | N/A                         | N/A                                  | Hospital development project in Pudong, Shanghai (initial stage)    | Lo Yuen Yat**                                       |
| 4 Ragentek Technology Group Limited#                                   | N/A        | 7,317,557      | 7,317,557                   | 7%                   | N/A   | N/A                         | N/A                                  | Manufacturer of original design mobile phone                        |   |
| 5 Loan to Junhui International Holdings Limited##                      | N/A        | 6,770,268      | 4,846,252                   | N/A                  | N/A   | N/A                         | N/A                                  | Owner of a dredger (construction phase) for dredging project in PRC | Chan Suit Khown                                     |
| 6 China Pacific Insurance (Group) Co. Ltd.                             | HK: 2601   | 5,427,472      | 4,776,820                   | 0.02%                | 415,348,039                                     | 13,077,165,305              | 2,615,433                            | Insurance services  |   |
| 7 Red Stone Fund   | N/A        | 3,578,254      | 3,712,544                   | 6%                   | N/A   | N/A                         | N/A                                  | Investments in mineral, energy or related industries in the PRC     |   |
| 8 China Alpha Fund###  | N/A        | 1,280,443      | 2,596,664                   | 1.27                 | 20,949,491                                      | 223,404,641                 | 2,846,908                            | Stock investment fund   |   |
| 9 Holygene Corporation Convertible Note####                            | N/A        | 2,200,000      | 2,266,060                   | N/A                  | N/A   | N/A                         | N/A                                  | Pharmaceutical research and development services                    | Lo Yuen Yat**;<br>Lao Yuan Yuan;<br>Chan Suit Khown |
| 10 HSBC Holdings PLC.  | HK: 005    | 1,188,553      | 1,014,734                   | —                    | 8,438,000,000                                   | 173,766,000,000             | —                                    | Provision of international banking and finance services             |   |

%% Based on interim financial statements, if applicable

\* common directorship refers to director(s) of the Company and/or the Manager also being director(s) of the investee company

\*\* director of both the Company and Manager

# First Shanghai Group held an equity interest of 3.24%

## secured loan with attached warrants exercisable for not more than 15% common equity of borrower at the pre-money valuation of the borrower at RMB30 million. The warrants will expire on the earlier of (1) the disposal of all or substantially all of its property or business or a merger in which more than 50% of its voting power is disposed of or (2) its IPO

### open-ended fund, financial data based on annual report ended each year on 30 June; First Shanghai Group was a passive investor in this fund, holding 9.43%

#### convertible note; First Shanghai Group held a 51.29% equity interest but the entity was deemed to be its associated company as the First Shanghai Group held less than half of the voting power of the entity

## APPENDIX 3 TOP INVESTMENTS FOR EACH YEAR FROM 2006 TO 30 JUNE, 2012

### (c) Top 3 investments/securities realized profit and basis for disposal:

No realized profit incurred from the disposals.

### (d) Top 3 investments/securities realized loss and basis for disposal:

|   | Name   | Stock code | Loss amount<br>(US\$) | Basis for disposal       |
|---|--|------------|-----------------------|--------------------------|
| 1 | PingAn Defeng<br>Collective Fund<br>Trust Plan | N/A        | 895,772               | Redemption upon maturity |

### (e) Investments/securities recognized impairment losses and basis of making provision:

|   | Name of investment                            | Cost<br>(US\$) | Amount of<br>provision<br>made<br>(US\$) | Book<br>value<br>(US\$) | Reason |
|---|---|----------------|--|-------------------------|--------|
| 1 | Loan to Junhui International Holdings Limited | 6,770,268      | 1,924,016                                | 4,846,252               | (a)    |
| 2 | Goldeneye Interactive Limited                 | 3,850,000      | 2,900,776                                | 949,224                 | (b)    |

(a) For the interim financial statement for the half year ended 30 June, 2012, due to Junhui's repeated failure to provide evidence of its financial resources to repay the loan, and having assessed the existing financial situation of Junhui and its guarantor, the Company considered there was a high risk to full recoverability of the loan and its related interest receivable. The outstanding amount totaled RMB56.45 million at the end of June 2012. The Company also learned from the vessel building shipyard that it is also owed a very material balance by Junhui. Given that the vessel is under the shipyard's control, that it has first priority over debt due to it, and the prevailing severe market conditions in the dredging industry, the Company provided US\$4.04 million as impairment to the loan receivable and its related interest. The Company has contacted the shipyard on the possibility of the Company taking over the vessel or to auction the vessel for distribution of the net proceed. The response from the shipyard in regard to the Company's proposal has not been positive. The Company considers that whether further provision may be required will be subject to various factors including a successful negotiation with the shipyard on the means on the disposition of the vessel and the market conditions of the industry.

(b) In view of its disappointing revenue, stagnant portal traffic and the expectation of a continued sluggish secondary housing market, the Company has decided not to invest the second tranche of investment, also made a provision of US\$2.9 million as impairment loss on the investment.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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 document 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 document misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Director's and chief executive's interests in the Company

As at the Latest Practicable Date, the chief executive of the Company and the following Directors and their respective associates were interested, or were deemed to be interested in the following long and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the "Model Code") adopted by the Company, to be notified to the Company and the Stock Exchange were as follows.: The interests represent long positions:

#### *Shares in the Company*

| Name of Director | Number of shares held |                     |         | % of the issued share capital |
|------------------|-----------------------|---------------------|---------|-------------------------------|
|                  | Personal interests    | Corporate interests | Total   |                               |
| Lo Yuen Yat      | 225,000               | 0                   | 225,000 | 0.29%                         |
| Yeung Wai Kin    | 100,000               | 0                   | 100,000 | 0.13%                         |
| Fan Jia Yan      | 75,000                | 0                   | 75,000  | 0.10%                         |



*Options in respect of shares in the Company*

Details of the share options granted under the share option scheme approved on 19 May, 2004 (the “Scheme”) and outstanding as at the latest practicable date are as follows:

|                          | Options held at 1 January 2012 | Options lapsed during the period | Options exercised during the period | Options held at the latest practicable date | Exercise price HK\$ | Closing price before the date of grant HK\$ | Date of grant | Exercise period         |
|--------------------------|--------------------------------|----------------------------------|-------------------------------------|---|---------------------|---|---------------|-------------------------|
| Directors:               |                                |                                  |                                     |   |                     |   |               |                         |
| Lo Yuen Yat              | 725,000                        | —                                | —                                   | 725,000                                     | 2.65                | 2.50  | 21/05/2004    | 25/05/2004 — 23/05/2014 |
|                          | 750,000                        | —                                | —                                   | 750,000                                     | 5.74                | 5.62  | 25/04/2007    | 25/04/2007 — 24/04/2017 |
| Lao Yuan Yuan            | 750,000                        | —                                | —                                   | 750,000                                     | 5.74                | 5.62  | 25/04/2007    | 25/04/2007 — 24/04/2017 |
| Xu Xiao Feng*            | 750,000                        | (750,000)**                      | —                                   | —   | —                   | —   | —             | —                       |
| Jiang Wei                | 50,000                         | —                                | —                                   | 50,000                                      | 2.65                | 2.50  | 21/05/2004    | 25/05/2004 — 23/05/2014 |
|                          | 500,000                        | —                                | —                                   | 500,000                                     | 5.74                | 5.62  | 25/04/2007    | 25/04/2007 — 24/04/2017 |
| Yeung Wai Kin            | 400,000                        | —                                | —                                   | 400,000                                     | 2.65                | 2.50  | 21/05/2004    | 25/05/2004 — 23/05/2014 |
|                          | 750,000                        | —                                | —                                   | 750,000                                     | 5.74                | 5.62  | 25/04/2007    | 25/04/2007 — 24/04/2017 |
| Zhao Yu Qiao             | 305,000                        | —                                | —                                   | 305,000                                     | 2.65                | 2.50  | 21/05/2004    | 25/05/2004 — 23/05/2014 |
|                          | 750,000                        | —                                | —                                   | 750,000                                     | 5.74                | 5.62  | 25/04/2007    | 25/04/2007 — 24/04/2017 |
| Wu Ming Yu               | 70,000                         | —                                | —                                   | 70,000                                      | 2.65                | 2.50  | 21/05/2004    | 25/05/2004 — 23/05/2014 |
|                          | 75,000                         | —                                | —                                   | 75,000                                      | 5.74                | 5.62  | 25/04/2007    | 25/04/2007 — 24/04/2017 |
| Employees of the Manager | 1,100,000                      | —                                | —                                   | 1,100,000                                   | 5.74                | 5.62  | 25/04/2007    | 25/04/2007 — 24/04/2017 |
|                          | <u>6,975,000</u>               | <u>(750,000)</u>                 | <u>—</u>                            | <u>6,225,000</u>                            |                     |   |               |                         |

\* Resigned on 21 October 2011

\*\* Pursuant to the terms of the Scheme, the options lapsed six months after the resignation of the Director

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests in the long or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code adopted by the Company, to be notified to the Company and the Stock Exchange.

**(b) Substantial shareholders and other persons' interests in Shares and underlying Shares**

At the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than the interests disclosed above in respect of certain Directors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register to be kept under Section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company or any other member of the Group. The interests represent long positions:

| Name  | Type of interest | Capacity                           | Number of ordinary shares held | Percentage of issued share capital |
|---|------------------|------------------------------------|--------------------------------|------------------------------------|
| First Shanghai <i>(Note 1)</i>  | Corporate        | Interest of Controlled Corporation | 25,162,866                     | 32.78%                             |
| First Shanghai Direct Investments Limited<br><i>(“FSDI”) (Note 1)</i> | Corporate        | Interest of Controlled Corporation | 25,162,866                     | 32.78%                             |
| Golad Resources Limited<br><i>(Note 1)</i>                            | Corporate        | Beneficial Owner                   | 25,162,866                     | 32.78%                             |

| Name                                      | Type of interest | Capacity                           | Number of ordinary shares held | Percentage of issued share capital |
|---|------------------|------------------------------------|--------------------------------|------------------------------------|
| Deutsche Bank Aktiengesellschaft          | Corporate        | Security Interest                  | 17,093,918                     | 22.27%                             |
|   |                  | Beneficial Owner                   | 3,166,082                      | 4.12%                              |
| QVT Financial LP<br><i>(Note 2)</i>       | Corporate        | Investment Manager                 | 17,093,918                     | 22.27%                             |
| QVT Financial GP LLC<br><i>(Note 2)</i>   | Corporate        | Interest of Controlled Corporation | 17,093,918                     | 22.27%                             |
| QVT Associates GP LLC<br><i>(Note 3)</i>  | Corporate        | Interest of Controlled Corporation | 16,863,526                     | 21.97%                             |
| QVT Fund LP <i>(Note 3)</i>               | Corporate        | Beneficial Owner                   | 15,337,878                     | 19.98%                             |
| Chen Dayou <i>(Note 4)</i>                | Personal         | Interest of Controlled Corporation | 8,075,000                      | 10.52%                             |
| Team Assets Group Limited <i>(Note 4)</i> | Corporate        | Beneficial Owner                   | 8,075,000                      | 10.52%                             |

*Note:*

- (1) Both First Shanghai and FSDI had corporate interests in the issued share capital of the Company through their indirect or direct interests in Golad Resources Limited. Golad Resources Limited is wholly-owned by FSDI, which is, in turn, wholly-owned by First Shanghai.
- (2) QVT Financial GP LLC had an interest in QVT Financial LP which is deemed to have an interest in the issued share capital of the Company since QVT Financial LP acts in the capacity of an investment manager to QVT Fund LP.
- (3) QVT Associates GP LLC had an interest in the issued share capital of the Company through its interest in QVT Fund LP.
- (4) Chen Dayou had an interest in the issued share capital of the Company through an interest in Team Assets Group Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any other persons who had an interest and/or short position in the Shares or underlying Shares of the Company which is required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under Section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

### 3. DIRECTORS' SERVICE CONTRACTS/INTERESTS

As at the Latest Practicable Date:

- (a) none of the Directors had entered or proposed to enter into a service contract with the Company or any of its subsidiaries or associated companies which is not determinable by the Company within one year without payment of compensation, other than statutory compensation;
- (b) save as disclosed herein in the section headed "Information about the relationship between the Company, its Directors, First Shanghai and the Manager" none of the Directors was materially interested in the Amended Investment Management Agreement or in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group;
- (c) save as disclosed herein in Appendix 4 none of the Directors had any interest, direct or indirect, in any assets which have since 31 December, 2011, being the date to which the latest published audited accounts of the Company were made up, and to the Latest Practicable Date, been acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (d) none of the Directors and their respective associates were considered to have interests, directly or indirectly, in any business which competes or is likely to compete with the business of the Group.

#### 4. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

#### 5. QUALIFICATION AND CONSENT OF EXPERTS

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

| <b>Name</b>              | <b>Qualifications</b>  |
|--------------------------|--|
| Kingsway Capital Limited | a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities within the meaning of the SFO |

As at the Latest Practicable Date, Kingsway Capital Limited had no shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor interest, either directly or indirectly, in any assets which had been, since 31 December, 2011 (the date to which the latest published audited financial statements of the Company were made up) acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Kingsway Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice and letter and references to its name and logo in the form and context in which they respectively appear.

#### 6. MATERIAL CONTRACTS

The following contracts relating to the Amended Investment Management Agreement were entered into by members of the Group before the Latest Practicable Date:

- the Amended Investment Management Agreement;
- an agreement between the Company and the Manager dated 31 December, 2004 to renew the Amended Investment Management Agreement for two years from that date;

- an agreement between the Company and the Manager dated 31 December, 2006 to renew the Amended Investment Management Agreement for two years from that date;
- an agreement between the Company and the Manager dated 31 December, 2008 to renew the Amended Investment Management Agreement for two years from that date;
- an agreement between the Company and the Manager dated 31 December, 2010 to renew the Amended Investment Management Agreement for two years from that date;
- an agreement between the Company and the Manager dated 15 September, 2011 being a second supplemental agreement to the Amended Investment Management Agreement to renew it further, for three years from 31 December, 2010 and to set the annual caps referred to in this circular;
- an agreement between the Company and the Manager dated 27 April, 2012 being a third supplemental agreement to the Amended Investment Management Agreement relating to the high-watermark; and
- the New Supplemental Agreement.

At the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December, 2011 (being the date to which the latest published audited consolidated financial statements of the Company were made up), except the half year unaudited loss as reported by the Company on 24 August, 2012.

## 7. INVESTMENT OBJECTIVES AND POLICIES

The following description of the investment objectives and policies of the Company is extracted from the placing memorandum issued by the Company on 8 April, 1992 but has been updated to take into account certain subsequent changes in them and to the Company's Articles of Association.

### **Investment Objectives and Policies**

The principal investment objective of the Company is to seek to achieve long-term capital appreciation through investments primarily in equity and equity-related investments in small to medium-sized companies operating in China. The majority

of the Company's future investments are expected to be in unlisted securities but the Company may also invest in securities which are listed on any of the stock exchanges in China. In particular the Company may apply up to 5 percent of its net asset value in the acquisition of a trading portfolio of the listed securities. The Company's investments may also take the form of partnerships (whether limited or unlimited), management participations, joint ventures and other forms of non-corporate investment. Although the restrictions described under "Investment Limitations" below will permit the Company to invest up to 20 percent of its net asset value in a single company or enterprise or group of companies or enterprises, it is anticipated that, typically, the Company's investments will have a cost of between US\$2 million and US\$5 million. If the investment is an a partnership which has unlimited liability under Chinese law the Company will endeavour to make such investment through a subsidiary or an intermediate investment holding company with limited liability. The Director will endeavour to ensure that the Company will not be directly exposed to unlimited liability on its investments.

The Company will continue to invest in a broad spectrum of industries in China. In selecting further industries and companies for equity investment, consideration will be given to the following investment criteria:

- (i) good profitability records;
- (ii) expert-oriented sales;
- (iii) relative competitive position in the domestic and international markets;
- (iv) good growth potential;
- (v) sound management; and
- (vi) sound environmental management.

Initially, the Company will focus on investments in the following key economic regions in China:

- (i) the Pearl River Delta in Guangdong Province;
- (ii) the special economic zones in Shenzhen, Zhuhai, Xiamen and Shatou;
- (iii) the special economic province of Hainan;

- (iv) the Shanghai Economic Development Zone; and
- (v) the major coastal cities.

The Company's capacity to provide capital and financial and other advice to its investee companies should improve their operational performance and strengthen their international marketing.

It is intended that the Company will seek to invest the majority of its assets in accordance with its investment objective and policies as soon as practicable. Pending investment, monies may be held in US Dollars in short-term money market instruments or deposited with banks or financial institutions.

The Company is permitted to borrow money and to charge its assets although the Directors have resolved that its aggregate borrowings should not exceed the amount of its issued share capital and share premium account at the time of the borrowing. The Directors do not intend to seek bank borrowings until substantially all the Company's funds have been invested.

#### **Investment Limitations**

The Articles of Association of the Company contain provisions to the following effect

- (a) that the Company will not either on its own or in conjunction with any connected person take legal, or effective, management control of underlying investments and that in any event the Company will not own or control more than 30% (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the voting rights in any one company or body, except in relation to wholly-owned subsidiaries of the Company; the limitation may not be amended while the Shares remain listed on the Stock Exchange except with the approval of Shareholders in general meeting and with the prior written consent of the Stock Exchange;
- (b) that a reasonable spread of investments will be maintained by the Company, that is in general the value of its holding of investments issued by any one company or body will not exceed twenty per cent. of the Company's net asset value at the time when such investment is made;



- (c) that the Company will convene and conduct shareholders' meetings in a manner which is acceptable to the Stock Exchange;
- (d) that any custodian, management company, any of their connected persons and every Director of any the Company and its management company is prohibited from voting their own shares at, or being part of a quorum for, any meeting to the extent that they have or any of their associates has, a material interest in the business to be conducted; and
- (e) that the Company's auditors are to be independent of the Company, any management company and any custodian, to the same extent as required of an auditor under the Companies Ordinance and in accordance with the requirements on independence issued by the Hong Kong Institute of Certified Public Accountants.

The Board has resolved that:—

- (1) The Company may from time to time acquire securities in an underlying investment through an intermediate investment holding company which is not a subsidiary of the Company and over which the Company on its own, or together with any connected person, does not exercise legal or effective management control, provided that the intermediate investment holding company is incorporated in Hong Kong, Bermuda, the Cayman Islands, the Cook Islands or any other jurisdiction with the consent of the Stock Exchange. Although the Company on its own, or together with any connected person, may hold more than 30 percent (but not more than 49 percent) of the voting rights or of the equity share capital of such an intermediate investment holding company and be entitled to appoint a non-executive Director to its board, the largest shareholder in any such company will be independent of the Company. In such cases the percentage of the voting rights in the underlying investment held by the Company will be calculated by applying the Company's proportionate interest in the voting rights of the intermediate investment holding company to the voting rights held by the intermediate investment holding company in the underlying investment. If any such intermediate investment holding company should become a subsidiary of the Company then, if necessary, the Company will procure it to use its best endeavours to sell sufficient of the securities held by it in the underlying investment within three months of its becoming a subsidiary to ensure that this limitation is not contravened; or

- (2) the Company will not invest in units or shares issued by a unit trust, mutual fund, open or closed-ended investment company or trust or other similar investment vehicle if, as a result, more than 10 percent of the Company's net asset value will be invested in such securities; or
- (3) the Company will not sell securities short or deal on margin; or
- (4) the Company will not buy or sell commodities, precious metals, options, warrants or futures (or any contracts associated therewith), except (other than in the case of commodities and precious metals) for hedging purposes; or

The above limitations apply as at the date of the relevant transaction or commitment to invest. Changes in the portfolio do not have to be effected merely because of the appreciations or depreciation in value, or by reason of the receipt of, or subscription for, any rights, bonuses or benefits in the nature of capital or of any acquisition or merger or scheme of arrangement for amalgamation, reconstruction or conversion or exchange or of any repayment or redemption, any of the limits would thereby be breached, but regard shall be had to these limits when considering changes or additions to the investment portfolio. None of the limitations will prohibit the Company from investing in wholly-owned subsidiaries for the purpose of making investments but if the Company establishes any such subsidiaries the limitations will apply on a consolidated basis.

None of these restrictions will require the realization of any investments of the Company where a restriction is breached as a result of any event outside the control of the Company occurring after the relevant investment is made, but no further such investment may be made until the relevant restriction can again be complied with. The Company will however be entitled to take up an investment opportunity offered to it on a pre-emptive or similar basis by reason of an existing investment.

### **Realisation in Investments**

The Company's success in achieving its objectives depends firstly upon establishing a sound and well diversified portfolio of investments and secondly upon successfully arranging the disposal of its investments either by way of flotation on a stock exchange or by sale to management or outside parties. Before making an investment, the Company seeks to satisfy itself that the target has the potential for flotation or for sale to other parties within a three to five year time frame.

Listings of investee companies will be sought on Chinese stock exchanges and/or, if possible, on the Stock Exchange. The Company may, if the Board considers it appropriate, retain all or part of investments which have obtained such a listing.

The Company may realize its investments by selling its stake to foreign investors who are looking for investment opportunities in China. In this regard, the shareholders of the Manager play an important role in identifying possible purchasers from their extensive client contact. While the Chinese authorities are expected to allow joint ventures to be listed on local stock exchanges, private sale arrangements will, in some cases, be the most appropriate means of disposing of the Company's investments.

### **Foreign Exchange Policy**

Although it is intended that the Company's investments will be denominated principally in US Dollars, there will be some investments which be denominated in RMB. It is not currently possible to hedge the RMB against the US Dollar on commercial terms and as the Company's investments are expected to be of a long term nature, it is not the Directors' present intention to hedge the Company's RMB denominated investments. The Directors reserve the right, however, to enter into arrangements to hedge currency risks, if such arrangements become desirable and practicable in the future.

### **Distribution Policy**

Surpluses arising from realization of investments will generally not be available for distribution and will be reinvested. All income received by the Company, after deducting expenses and providing for any diminution in the value of investments, will to the extent permitted by law normally be paid out as a dividend although a portion of the income may, at the discretion of the Board, be retained for future investment. Subject to these constraints it is intention of the Directors that the Company will pay final and interim dividend in April and October respectively in each year.

### **Valuation Policy**

The Company's investment will be valued by the Manager, where necessary in consultation with the Auditors, in accordance with valuation regulations adopted by the Investment Committee from time to time. Such valuations will be subject to the approval of the Investment Committee. The net assets value of the Company will be

the value of all assets less all liabilities of the Company. The net asset values of the Company will be determined as at the last day of the Company's financial year and on each of the other Quarter Days (each a "Valuation Day").

For the purposes of determining net asset values, the Investment Committee has adopted valuation regulations which include the following:

- (i) valuations shall be prepared in US Dollars;
- (ii) listed investments shall be valued at (a) the last available closing price on the Valuation Day and, if none, (b) the middle of the bid and offer price at the close of business on the Valuation Day and, if none, (c) the last traded price, subject in each case to discount if marketability is limited by the size of the holding relative to trading volume or otherwise;
- (iii) unlisted investment shall be valued at cost or such other price considered as representing their fair value as determined in good faith by the Manager (in consultation with the Auditors if necessary) and approved by the Investment Committee;
- (iv) any value other than in US Dollars shall be converted in US Dollars at such rate of exchange on the relevant Valuation Day as the Manger deems appropriate in the circumstances;
- (v) liabilities shall be deemed to include such provisions and allowances for contingencies as the Investment Committee considers appropriate; and
- (vi) if the Valuation Day is not a Business Day or is a day on which the market for any investments or assets of the Company to be valued are closed for business, then such assets or investments shall be valued as at the immediately preceding Business Day and/or as at the immediately preceding day on which the relevant market was open for business.

The net asset value of the Company and the net asset value per Share as at each Valuation Day will be published in the newspapers in Hong Kong with 15 days of each Valuation Day.

#### **Custodian**

The Company's custodian is Citibank N.A. Hong Kong branch.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours on any weekday (except for public holidays) until the date of the Extraordinary General Meeting at the office of the Company in Hong Kong at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong:

- (a) the letter from the Independent Board Committee, the text of which is set out in Appendix 1 to this circular;
- (b) the letter from Kingsway Capital Limited, the independent financial adviser, the text of which is set out in Appendix 2 to this circular;
- (c) the material contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (d) the written consent referred to in the paragraph headed “Qualifications and consents of experts” in this appendix;
- (e) the Memorandum and Articles of Association of the Company; and
- (f) this circular.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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# CHINA ASSETS (HOLDINGS) LIMITED

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 170)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of China Assets (Holdings) Limited (the “Company”) will be held at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong on 28 December, 2012 at 3 p.m. to consider and, if thought fit, to pass the following resolution which will be proposed with or without modification as an Ordinary Resolution:

“**THAT:**

1. the agreement between the Company and China Assets Investment Management Limited (the “Manager”) dated 25 September, 2012 to amend the Amended Investment Management Agreement as defined and described in the circular of the Company dated 7 December, 2012 (the “Circular”) (a copy of which having been produced and initialed by the chairman of the meeting for the purpose of identification) supplemental to the Amended Investment Management Agreement, to extend the term of the Amended Investment Management Agreement to 31 December, 2015 and cap the total annual remuneration payable to the Manager under the Amended Investment Management Agreement and the transactions contemplated therein and the fees and other remuneration paid or payable by the Company thereunder and the “high-watermark” referred to in the Circular be and is hereby generally and unconditionally approved and the Directors of the Company be and are hereby authorized for and on behalf of the Company to do such acts and things and deliver all documents as they may consider necessary, desirable or expedient in connection with the transactions contemplated thereunder; and
2. the proposed annual caps, as described in the Circular, for the remuneration payable by the Company to the Manager be and are hereby approved.”

By Order of the Board

**Cheng Sai Wai**

*Secretary*

Hong Kong, 7 December, 2012

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

- (1) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the Company's registered office at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting.
- (3) The resolution will be put to vote at the meeting by way of poll.