THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in Bao Yuan Holdings Limited (the "**Company**"), you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee(s).

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

寶源控股有限公司

Bao Yuan Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 692)

VERY SUBSTANTIAL ACQUISITION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED CAPITAL OF CHANG YE HOLDINGS LIMITED

AND

NOTICE OF SPECIAL GENERAL MEETING

A notice convening a special general meeting of the Company to be held at 9:00 a.m. at The City Garden Hotel, 9 City Garden Road, Hong Kong on 3 January 2013 is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfers office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the special general meeting of the Company or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting of the Company or any adjournment thereof should you so wish.

14 December 2012

CONTENT

In this circular, unless the context otherwise requires, capitalized terms used shall have the following meanings:

"Acquisition"	the proposed acquisition of the Sale Shares and the Sale Loan pursuant to the Sale and Purchase Agreement
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"BVI"	the British Virgin Islands
"China Household Furniture"	China Household Furniture Holdings Limited, a company incorporated in Hong Kong with limited liability
"China Household Furniture Group"	China Household Furniture and Zhongshan Prado
"Company"	Bao Yuan Holdings Limited (寶源控股有限公司), a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the transactions contemplated under the Sale and Purchase Agreement
"Completion Date"	the date on which the Completion takes place
"Consideration"	the consideration of HK$60,000,000 payable by the Purchaser for the Sale Shares and the Sale Loan under the Sale and Purchase Agreement
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group upon Completion, together with the Target Group
"Group"	the Company and its subsidiaries

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	13 December 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Long Stop Date"	6 months from the date of the Sale and Purchase Agreement or such later date or time as the Purchaser and the Vendor may agree in writing
"PRC"	the People's Republic of China
"Promissory Note"	the secured promissory note in a principal amount of HK$60,000,000 with interest at 4% per annum due on the third year from the date of issue or 31 March 2016 whichever is later to be issued by the Company to the Vendor to satisfy the Consideration pursuant to the Sale and Purchase Agreement
"Purchaser"	Legend Whistler Limited, a company incorporated in the BVI with limited liability and a wholly owned subsidiary of the Company
"Sale and Purchase Agreement"	the agreement to acquire the Sale Shares and the Sale Loan entered into between the Purchaser and the Vendor dated 18 October 2012
"Sale Shares"	the entire issued share capital of the Target
"Sale Loan"	the shareholders' loan owed by the Target Group to the Vendor on Completion
"SFO"	The Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)

"SGM"	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) in the Company of HK$0.001 each
"Shareholders"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target"	Chang Ye Holdings Limited, a company incorporated in the BVI with limited liability
"Target Group"	the Target, China Household Furniture and Zhongshan Prado
"Valuation Report"	the valuation report on the Target Group prepared by GA Valuation Limited as set out in Appendix V
"Vendor"	Jolly Treasure Developments Limited, a company incorporated in the BVI with limited liability
"Zhongshan Prado"	中山市普納度風尚家居有限公司 (Zhongshan City Prado Style Household Company Limited), a wholly foreign-owned enterprise established in the PRC
"%"	per cent

The English translation of Chinese names are included for information purpose only and should not be regarded as their official English translation.

寶源控股有限公司
Bao Yuan Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 692)

Executive Directors:
Mr. Wong Man Pan
Mr. Tsang King Sun
Ms. Tsui Kwok Yin, Czarina
Mr. Fu Zhenjun

Non-executive Director:
Mr. Yiu Kwok Ming, Tommy

Independent non-executive Directors:
Mr. Ng Lok Kei
Mr. Liang Jin An
Mr. Chan Hon Yuen
Mr. To Yan Ming, Edmond
Mr. Kaneko Hiroshi

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head office and principal place of business:
25/F Overseas Trust Bank Building
160 Gloucester Road, Wanchai
Hong Kong

14 December 2012

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED CAPITAL OF CHANG YE HOLDINGS LIMITED

AND

NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

The Board is pleased to announce that on 18 October 2012 (after trading hours), the Purchaser and the Vendor entered into the Sale and Purchase Agreement, pursuant to which, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell, the Sale Shares and the Sale Loan at a total consideration of HK$60,000,000 (subject to adjustment), which will be satisfied by way of issue of the Promissory Note upon Completion.

The Acquisition was introduced to the Company by Mr. Fu Zhenjun ("**Mr. Fu**"), an executive Director in or about early August 2012, Mr. Fu who had experience in trading of furniture is acquainted to Mr. Kuang Yuan Wei ("**Mr. Kuang**"), the Chairman and ultimate beneficial owner of Zhongshan Prado and the Target. The Company started discussion with Mr. Kuang on the Acquisition on or about 14 August 2012, three executive Directors including Mr. Wong Man Pan, Mr. Tsang King Sun and Mr. Fu are involved in the discussion.

The purpose of this circular is to provide you with, among other things, (i) further information on the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the accountants' report of the Target Group; (iii) the pro forma financial information on the Enlarged Group; (iv) the valuation report on the Target Group; (v) the letters from the financial adviser of the Company and the auditors of the Company in respect of the valuation of the Target Group and to give you a notice of the SGM at which a resolution will be proposed to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder and the issue of the Promissory Note.

THE SALE AND PURCHASE AGREEMENT

Date

18 October 2012 (after trading hours)

Parties

1. The Purchaser: Legend Whistler Limited, a wholly owned subsidiary of the Company

2. The Vendor: Jolly Treasure Developments Limited

The Vendor is an investment holding company and is wholly owned by Mr. Kuang Yuan Wei. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, as at the Latest Practicable Date, the Vendor and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules) and Mr. Kuang and his associate is third party independent to the ultimate beneficial owners of m3 Technology Development Limited, the target company of the Company's very substantial acquisition completed on 3 September 2012.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire:

(a) the Sale Shares, representing the entire issued share capital of the Target. As at the Latest Practicable Date, the Vendor is the beneficial owner of the Sale Shares; and

(b) the Sale Loan, representing the shareholders' loan owed by the Target Group to the Vendor on Completion, which as at 31 August 2012 amounted to approximately HK$3,904,354.

Consideration

Pursuant to the terms of the Sale and Purchase Agreement, the Consideration of HK$60,000,000 (subject to adjustment as described in the paragraph headed "Profit guarantee and adjustment to the Consideration" below) and shall be satisfied by way of issue of the Promissory Note upon Completion.

Further details of the Promissory Note are set out in the paragraph headed "Promissory Note" below.

Basis of the Consideration

The Consideration has been arrived at based on normal commercial terms after arm's length negotiations between the Purchaser and the Vendor and was determined after taking into account the following factors:

(a) the preliminary valuation on the Target Group prepared by GA Valuation Limited, an independent professional valuer, adopting income-based approach using discounted cash flow method, according to which the market value of the Target Group was approximately HK$62.0 million as at 31 August 2012;

(b) the business development and future prospects of the Target Group; and

(c) the synergies expected to be generated between the Group and the Target Group as stated in the paragraph headed "Reasons for and benefits of the Acquisition" below.

The principal assumptions used in the preliminary valuation of 100% equity interest of the Target Group are as follows:

- the financial projections provided are reasonable, reflecting market conditions and economic fundamentals;
- the financial projections provided will be materialized;
- there will be sufficient supply of technical staff in the industry in which the Target Group operates;
- the Target Group will retain competent management, key personnel and technical staff to support its ongoing operations and developments;
- interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing;
- all relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Group operates or intends to operate would be officially obtained, and renewed upon expiry;
- there will be no major changes in the current taxation laws in the localities in which the Target Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with; and
- there will be no major changes in the political, legal, economic or financial conditions in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Group.

The financial projections is provided by management of the Target Group

In arriving at the valuation, a cash flows projection for the period commencing 1 September 2012 to 31 December 2017 is prepared. In estimating the cash flows projections, the revenue projection of the Target Group for the period commencing 1 September 2012 to 31 December 2017 ("**Revenue Forecast**") is a major component of cash flows projections of the Target Group with reference to the existing business model of the Target Group and its proposed business development strategies.

As set out in the section headed "Information on the Target Group", the Target Group principally engaged in trading of wooden home furnishing products in the PRC and provision of one-stop home furnishing solutions.

It is the business plan of the Target Group to pursue the development of its existing trading of wooden home furnishing products in PRC and one-stop home furnishing solutions, details of which are set out in paragraph headed "Principal business and business plan".

According to the business plan of the Target Group, its revenue mainly comprises (i) revenue from trading of wooden home furnishing products in the PRC; and (ii) franchise fee income from provision of one-stop home furnishing solutions.

In connection to the trading income, the forecasted revenue from trading of wooden furnishing products was estimated with reference to the historical trading income and adjusted by the average inflation rate in PRC from 2006 to 2011. In addition, as estimated by the management, the Target Group expected the government-sponsored "old-for new" program will be launched from 2013 to 2015. The government-sponsored "old-for new" program is to subsidies domestic residents to replace their old furniture with new ones, which is similar to the government-sponsored "old-for-new" program for electrical appliances（家電下鄉計劃）. As such, the revenue will boost 10% during the mentioned period. In addition, the Target Group has signed two non-legally binding memoranda of understanding with its existing wholesales customers for provision of mid to high-end products for duration until 31 December 2013 for the amounts of RMB7,000,000 and RMB8,000,000 respectively.

Regarding provision of one-stop home furnishing solution, the Target Group will expand this stream of business by way of franchising. The Target Group has entered into franchise agreements with franchise partners in various cities, namely Changsha, Jiangmen, Guangzhou, Foshan and Shenzhen, in the PRC for establishing retail shops. Under the franchise agreements, the Target Group will provide inventory to franchise partners. As such, the Target Group will earn trading income from franchise partners and expected to generate such income upon commencement of business of the franchise shops. Those shops are planned to commence business in 2013.

The forecasted trading income from franchisee was estimated with reference to the turnover guarantee as stipulated in the franchise agreement. Pursuant to the franchise agreements, the turnover guarantee is ranging from RMB 3 to 4 million per year of each shop depending on the scale of the shop and expecting the Target Group will establish 4 retail shops each year from 2013 to 2017 which is within the management's business plan. The projected trading franchisee income is expected to increase during 2013 to 2017 as a result of (i) establishment of 4 new retail shops each year, therefore, leading to an increase in accumulated number of retail shops each year; and (ii) the estimated increase in average turnover per shop in each year which is determined based on the average guarantee turnover per shop as stipulated in the franchise agreement and adjusted by the average inflation in the PRC during 2006 to 2011. According to the business plan of the Target Group, franchise arrangement will be established in major cities of various provinces, such as, Beijing, Shanghai, Chongqing, Hunan, Jiangsu and Henan in the Target Group's business development.

In assessing the valuation, the Board has discussed with and enquired the valuer about different aspects, including the bases and assumptions, upon which the valuation has been prepared, and reviewed the Valuation Report prepared by the valuer including the assumptions used in arriving at the cash flow projections as set out in paragraph "8.3 Discounted Cash Flow" in the Valuation Report and the fact that the Revenue Forecast and the forecasted expenses are not projected on signed contract with committed income but based on future events which may or may not take place. Based on (i) the Board's understanding and assessment to the business plans of the Target Group; (ii) the Board's discussion and enquiries with the valuer concerning the assumptions of the valuation; and (iii) the valuer's assessment and work performed regarding the reasonableness of the cash flow projections of the Target Group, the Board considers the assumptions adopted by the valuer in relation to the cash flow projections to be acceptable.

Furthermore, the Board has also discussed with the reporting accountant regarding whether the profit forecast of the Target Group for the period commencing 1 September 2012 and ending 31 December 2017 has been properly compiled in accordance with the bases and assumptions made by the management of the Target Group. Following discussion with the reporting accountant on its assessment on the future cash flows of the Target Group by examining the key assumptions, the Board considers that the assumptions were found to be reasonable.

The valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. The Valuation Report is set out in Appendix V of this circular. Letters from the financial adviser of the Company and the auditors of the Company in respect of the valuation are set out in Appendix VI of this circular.

Profit guarantee and adjustment to the Consideration

Pursuant to the Sale and Purchase Agreement, the Vendor has warranted and guaranteed to the Purchaser that:

(i) the audited consolidated net profit after tax of the Target Group ("**Audited CNPAT**") for the period from 1 January 2012 to 31 December 2013 (the "**First Period**") will not be less than HK$15,000,000 (the "**Guaranteed Amount**");

(ii) the Audited CNPAT for year ending 31 December 2014 will not be less than the Guaranteed Amount; and

(iii) Audited CNPAT for year ending 31 December 2015 will not be less than the Guaranteed Amount.

(collectively, the "**Profit Guarantee**")

The Guaranteed Amount of HK$15,000,000 was determined with reference to the annualized amount of the unaudited CNPAT of the Target Group of approximately HK$15,275,000 based on unaudited CNPAT of the Target Group of approximately HK$10,183,000 for the eight months ended 31 August 2012.

In the event that any of the Audited CNPAT in the period as mentioned in (i) to (iii) above be less than the Guaranteed Amount, the Consideration will be adjusted downward and with the principal amount of the Promissory Note be reduced according to the shortfall between the Audited CNPAT and the Guaranteed Amount in the corresponding period. The maximum amount of adjustment to the Consideration for each period of shortfall between the Audited CNPAT and the Guaranteed Amount will be subject to HK$15,000,000. Any shortfall amount of the Guaranteed Amount for a period of the Guaranteed Amount will be set off against the principal amount of the Promissory Note with a cap of HK$15,000,000 for each period of the Guaranteed Amount.

The Audited CNPAT for the First Period mentioned in (i) above will be derived from the summation of Audited CNPAT for the year ending 31 December 2012 and 2013 respectively, if any one of the period during the First Period is recording a loss, the loss will be set off against the Audited CNPAT recorded for the other period to give a summation effect.

As the Zhongshan Prado only began to operate the business in early 2012, this is the first year of the Target Group to run the business and has less than a full financial year for the year ending 31 December 2012, as such, both the Company and the Vendor believe the Guaranteed Amount for the First Period as mentioned in (i) above which covers two financial years instead of one financial year are fair and reasonable.

The Company will engage the auditor and will apply the Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants to determine the Audited CNPAT. The due date for determination of the Audited CNPAT shall be within 3 months after the end of each period for the Guaranteed Amount.

The Profit Guarantee will be automatically lapsed when the Company ceases to have any direct or indirect controlling interests in Zhongshan Prado.

The Company will have to settle the entire Promissory Note subject to any prior downward adjustment of the Consideration in case of any shortfall of profits of the Target Group as guaranteed by the Vendor, however, the Company will not have the protection after it has disposed of its interest in the Target. This contractual term was requested by the Vendor who considers that the investment by the Company in the Target Group and its business should be of long to medium term and should not be of short term, hence, the Vendor is agreeable to accept the payment of the entire Consideration by way of promissory note with 3 years maturity and to provide the Company with a 3 years profits guarantee and an adjustment mechanism for the Consideration in the event of non-performance of the profits of the Target Group guaranteed by the Vendor. The Company considers that with the Vendor accepting payment of the Consideration by promissory note with maturity of 3 years and the provision of profits guarantee for 3 years, the said term requested by the Vendor is fair and reasonable. Moreover, the Company does not have any intention to dispose of its investment in the Target Group after Completion.

Conditions precedent

Completion shall be conditional upon satisfaction or waiver (as applicable) of each of the following conditions precedent:

(a) the Purchaser having obtained from a qualified PRC legal adviser appointed by the Purchaser a PRC legal opinion (in such form and substance satisfactory to the Purchaser), which shall include but not be limited to review on the legality of the transaction under the Sale and Purchase Agreement, the establishment and operation of Zhongshan Prado under PRC laws;

(b) the Purchaser having obtained from a qualified valuer appointed by the Purchaser a valuation report on the Target Group (in such form and substance satisfactory to the Purchaser), which include but not be limited to valuation of the Target Group of not less than HK$60,000,000 ;

(c) the Vendor having provided the Certificate of Good Standing of the Target and the Certificate of Incumbency of the Target in such form and substance satisfactory to the Purchaser;

(d) members of senior management of Zhongshan Prado referred to in Schedule IV of the Sale and Purchase Agreement having signed service contract undertaking to continue their services with Zhongshan Prado for not less than 12 months after Completion;

(e) the Purchaser and its agents and professional advisers being reasonably satisfied with the results and reports of the investigation and due diligence review on the Target Group (whether in relation to legal, accounting, finance, operations or other aspects in the Purchaser's opinion being important);

(f) where necessary, the Vendor having obtained all approvals, confirmations, waivers or consents in respect of the Sale and Purchase Agreement and all transactions contemplated thereunder from the administration authorities having jurisdiction over the Vendor or other relevant third parties;

(g) the Shareholders of the Company having approved the Sale and Purchase Agreement, issue of the Promissory Note and all transactions contemplated thereunder in accordance with the provisions of its articles of association and the Listing Rules;

(h) the Purchaser being satisfied that at all times during the period from the date of the Sale and Purchase Agreement to the Completion Date, the warranties under the Sale and Purchase Agreement remain true, accurate, not misleading in any material respect or in breach, and no event or circumstance which may result in any material adverse change has occurred to the business of the Target Group; and

(i) the Purchaser being satisfied with the Vendor's complete performance of undertakings as set out in Part B of Schedule III of the Sale and Purchase Agreement before the Completion Date.

Save and except for conditions precedent (g), the Purchaser may waive in writing the conditions precedent as mentioned above. If any of the above conditions precedent has not been satisfied (or as the case may be, waived by the Purchaser) on or before the Long Stop Date, the Purchaser will be entitled to terminate the Sale and Purchase Agreement by giving notice in writing to the Vendor and the Purchaser shall be released from all obligations thereunder save for any antecedent breaches of the terms thereof.

As at Latest Practicable Date, save as to condition precedent (b) which has been fulfilled by the Company obtaining a valuation on the Target Group of HK$62,000,000 as at 31 August 2012 from GA Valuation Limited, no condition precedent has been fulfilled or waived and the Purchaser has no intention to waive any of the above conditions precedent.

Prior to entering into the Sale and Purchase Agreement, the due diligence exercise on the Target Group performed by the Company including but not limited to (i) three days site visit to Zhongshan Prado conducted in end of August 2012 to understand its business and operations; and (ii) engaged Hong Kong and the PRC legal advisers to perform legal due diligence on the Target Group; and (iii) engaged an accounting firm to perform financial review. The Directors have reviewed the business plan, the management accounts and all material contracts entered into by the Target Group. The Directors have also discussed with the Vendor and the management of the Target Group on the affairs and future prospects of the Target Group. In addition, the Company has engaged an independent valuer to prepare draft valuation report on the Target Group and has engaged a financial adviser to review the bases and assumptions adopted in the valuation.

Completion

Completion shall take place within five Business Days (or such later date or time as the Vendor and the Purchaser may agree in writing) after issue of notice by the Purchaser in writing to notify the Vendor the satisfaction or waiver (as applicable) of all the conditions precedent of the Sale and Purchase Agreement.

Upon Completion, the Target will become a wholly owned subsidiary of the Group and the financial results of the Target Group will be consolidated into the accounts of the Group.

There is no provision in the Sale and Purchase Agreement which grants any right to the Vendor to nominate its nominee to be appointed as Director.

Given the terms of the Sale and Purchase Agreement were negotiated on an arm's length basis, the Board considers that the terms of the Sale and Purchase Agreement are fair and reasonable, are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

PROMISSORY NOTE

Pursuant to the Sale and Purchase Agreement, the Company will issue the Promissory Note in the principal amount of HK$60,000,000 to the Vendor as settlement of the Consideration.

The principal terms of the Promissory Note are as follows:

Issuer:	The Company
Principal amount:	HK$60,000,000
Maturity:	Three years from the date of issue of the Promissory Note or 31 March 2016 whichever is later (the "**Maturity Date**")

Interest:	4% per annum, payable on the anniversary of the Promissory Note
Repayment:	The Promissory Note shall be due and repayable on the Maturity Date
Early redemption:	Upon the Target Group having achieved summation of Audited CNPAT of HK$45,000,000 under the periods of the Profit Guarantee, the Company may redeem the Promissory Note prior to the Maturity Date in full or in part (together with accrued interest) at any time after the date of issue of the Promissory Note by giving not less than 7 days prior written notice to the holder(s) of the Promissory Note
Mandatory redemption:	The Promissory Note shall be mandatorily redeemed by the Company upon the occurrence of an event of default and at any time thereafter, the holder(s) of the Promissory Note, unless such event of default has been waived in writing by it, by notice in writing require the Company to redeem the whole (but not part) of the outstanding principal amount of the Promissory Note (together with accrued interest) within 30 Business Days
Transferability:	Subject to the fulfilment of the Profit Guarantee for each of the relevant period, the holder of the Promissory Note may freely assign or transfer the Promissory Note to any person (other than a connected person (as defined in the Listing Rules) of the Company) subject to obtaining prior written consent of the Company
Security:	The entire issued share capital of China Household Furniture

Events of default: The Promissory Note contains customary events of default provisions which provide that, on the occurrence of certain events of default specified in the terms and conditions of the Promissory Note, the holder(s) of the Promissory Note shall be entitled to demand for immediate repayment of the principal amount outstanding under the Promissory Note including:

(a) failure to remedy any default within 30 days after notice of default of any obligation under the Promissory Note is served by a note holder to the Company;

(b) the Company commits any material breach of the condition of the Sale and Purchase Agreement or any supplemental agreement thereto;

(c) the passing of any resolution to wind up the Company or liquidate the assets of the Company or any order being made by a court for the winding up of the Company or liquidation of the assets of the Company;

(d) whole or a substantial part of the assets and businesses of the Company is being taken possession of or receiver or manager is being appointed thereof by collateral holder;

(e) a substantial part of the assets of the Company is being taken possession of, forfeited or being foreclosed before or after any judgment and is not being released within 90 Business Days; or

(f) Shares of the Company are suspended for trading on the Stock Exchange for a continuous period of over 90 Business Days or Shares of the Company are being delisted from the Stock Exchange.

The terms of the Promissory Note are determined after arm's length commercial negotiation between the Purchaser and the Vendor with reference to the prevailing market condition and the financial position of the Group. In view of the above, the Directors consider the terms of the Promissory Note including the interest rate of the Promissory Note are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

It is the Company's intention to repay the Promissory Note by its internal resources plus the funds generated from the Target Group to repay the Promissory Note (subject to adjustment for the shortfall between the Guaranteed Amount and the Audited CNPATs as a result of the Profit Guarantee if applicable).

SHAREHOLDING STRUCTURE OF THE TARGET GROUP

Set out below is the shareholding structure of the Target Group (i) as at the Latest Practicable Date; and (ii) immediately after Completion:

Shareholding structure of the Target Group as at the Latest Practicable Date

Vendor

100%

Target

100%

China Household Furniture

100%

Zhongshan Prado

Shareholding structure of the Target Group immediately after Completion

Company

100%

Purchaser

100%

Target

100%

China Household Furniture

100%

Zhongshan Prado

INFORMATION ON THE TARGET GROUP

The Target

The Target is an investment holding company incorporated in the BVI on 10 August 2012 with limited liability which is wholly owned by the Vendor since 7 September 2012. The sole asset of the Target is the entire issued share capital of China Household Furniture.

China Household Furniture

China Household Furniture (formerly known as Realty Bright Worldwide Limited) is an investment holding company incorporated in Hong Kong on 26 August 2010 with limited liability. China Household Furniture adopted its current name on 24 June 2011. The sole asset of China Household Furniture is the entire issued share capital of Zhongshan Prado.

Zhongshan Prado

Zhongshan Prado (formerly known as 中山市綠洲家居有限公司 (Zhongshan City Oasis Household Company Limited)) is a wholly foreign-owned enterprise established in the PRC on 30 September 2011. Zhongshan Prado adopted its current name on 8 May 2012. Zhongshan Prado is the principal operating company of the Target Group.

Principal business and business plan

In early 2012, Zhongshan Prado began to engage in trading of wooden home furnishing products in the PRC and provision of one-stop home furnishing solution.

In maintaining on-going relationship with its customers in the trading business, Zhongshan Prado has signed two non-legally binding memorandum of understandings with its existing wholesales customers for a total amount of approximately RMB15,000,000 for provision of mid to high-end products for duration of not less than 12 months.

- *One-stop home furnishing solutions*

  Along with its trading business, Zhongshan Prado is developing into a one-stop total home furnishing solutions provider in the PRC which involves formulation of overall plans for property owners and builders. Zhongshan Prado will provide one-stop comprehensive home furnishing solutions covering various aspects, namely provision of interior design services, coordination of the home fitting-out works and sourcing of home decor materials and items. The one-stop home furnishing solutions provided by Zhongshan Prado will encompass (i) overall planning of home furnishing interior design covering home structure, functional design, and planning of line, colour and space in the design concept; (ii) comprehensive co-ordination in home fitting-out works; and (iii) the overall arrangement and sourcing of decorative materials, home electrical appliances, lighting products, sanitary ware, kitchen cabinets, furniture and other home furnishing products.

One-stop home furnishing solutions offered by Zhongshan Prado target at high-end home furnishing solutions market which differentiates itself from other competitors by offering tailormade, stylish and personalized home furnishing solutions according to customers' individual preferences, tastes and requirements. The one-stop home furnishing solutions business of Zhongshan Prado will be launched in 2013.

In pursuing its one-stop home furnishing solutions business development, Zhongshan Prado will explore business opportunities among both retail customers and corporate customers.

• *Home furnishing business with retail customers*

In developing home furnishing business at retail level, Zhongshan Prado will establish a network of one-stop home furnishing solutions retail shops at different tier of cities and at different regions in the PRC for providing services and solutions directly to end users. The retail shops, on one hand, serve as display rooms for the collections of the household wooden products of Zhongshan Prado, on the other hand, serve as platforms for Zhongshan Prado to communicate with customers to illustrate preliminary simulation of the interior design concept to customers upon understanding their requirements.

At present, Zhongshan Prado has a retail shop located in Zhongshan which started the operation since mid of 2012 and there is another retail shop located in Zhongshan which is establishing in process and planned to commence the business in late of 2012. Moreover, Zhongshan Prado has entered into franchise agreements with franchise partners in various cities in the PRC for establishing retail shops, namely Changsha, Jiangmen, Guangzhou, Foshan, Shenzhen. Under the franchise agreements, Zhongshan Prado will provide the inventory to franchise partners. As such, Zhongshan Prado will earn trading income from franchise partners and expected to generate such income upon the commencement of the business of the franchise shop. Those shops are planned to commence its business in mid 2013.

Management team

The existing key management of the Target Group will be retained in the Enlarged Group after Completion and the Company will consider appointing additional suitable candidates to ensure the efficient operation of the Target Group. Set out below are the biographies of the key management of the Target Group:

(i) Mr. Kuang Yuan Wei is the chairman of Zhongshan Prado. Mr. Kuang has over 20 years of experience in commercial banking industries and has held various senior positions in the banking industry prior joining Zhongshan Prado. Mr. Kuang has strong social networks and has established deep connections with people engaged in home furnishing industry;

(ii) Mr. Li Tang is the marketing centre and design director of Zhongshan Prado. Mr. Li is a senior member of professional association of interior designers in Zhongshan and possesses rich experience in interior design and marketing activities in home furnishing industry;

(iii) Mr. Fan Yu Cheng is the supply chain management centre director of Zhongshan Prado. Mr. Fan has considerable experience in supply chain management and procurement operation experience and is familiar with the sourcing channels and resources in home furnishing products and building materials industry;

(iv) Mr. Liu Hai Bin is the logistic centre director of Zhongshan Prado. Prior joining Zhongshan Prado, Mr. Liu has held managerial positions in logistic arrangement and operation and is familiar with the workflow and operation of logistic management;

(v) Mr. Xiao Zhu Cheng is the integrated management centre director of Zhongshan Prado. Mr. Xiao possesses rich experience in integrated management and has held various senior managerial positions prior joining Zhongshan Prado; and

(vi) Ms. Zuo Li Jun is the financial centre management director of Zhongshan Prado. Ms. Zuo has working accounting and financial management experience in different industries prior joining Zhongshan Prado.

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, as at the Latest Practicable Date, the abovementioned key management are third parties independent of the Company and its connected person (as defined in the Listing Rules).

Financial information of the Target Group

Save for its entire equity interest in China Household Furniture, the Target does not have other significant assets and liabilities and has not carried out any significant business activities since its incorporation on 10 August 2012.

According to the accountants' report of the Target Group as set out in Appendix III to this circular, the audited combined financial information of the Target Group as prepared in accordance with the Hong Kong Financial Reporting Standards for (i) the period from 26 August 2010 (date of incorporation) to 31 December 2010; (ii) year ended 31 December 2011; and (iii) eight months ended 31 August 2012 are as follows:

	Period from 26 August 2010 (the date of incorporation) to 31 December 2010	**Year ended 31 December 2011**	**Eight months ended 31 August 2012**
	(Audited)	(Audited)	(Audited)
	HK$	*HK$*	*HK$*
Turnover	—	—	81,686,633
(Loss)/Profit before taxation	(5,300)	(88,303)	13,586,808
(Loss)/Profit after taxation	(5,300)	(88,303)	10,183,172

Prior to 2012, the Target Group has yet commenced its business operation. It commenced its business operation in March 2012 and generated turnover and profit after taxation of approximately HK$81.7 million and HK$10.2 million respectively for the eight months ended 31 August 2012. All revenues are of trading of furniture and fixture in nature and all expenses are recurrent and not of one-off in nature.

According to the accountants' report of the Target Group as set out in Appendix III to this circular, as at 31 August 2012, the audited combined net assets value of the Target Group was approximately HK$9,947,098.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in (i) sales of fabrics, garments and other related accessories in Hong Kong, the United States and the PRC; (ii) iron and titanium exploration, development and mining in the PRC; (iii) securities investment; (iv) fashion business; (v) money lending business. Recently, on 3 September 2012, the Group completed acquisition of the entire issued share capital of an information technology solution provider, m3 Technology Development Limited, which develops innovative systems and intelligent products for retail industry (the "**Recent Acquisition**"). Upon completion of the Recent Acquisition, it is expected that the Group will be diversified into information technology business which provides innovative products and solutions (the "**Innovative Business**"). Details of the Recent Acquisition were set out in the announcement of the Company dated 2 November 2011 and the circular of the Company dated 25 June 2012.

After taking into account (i) the working capital requirement for the Group's business operation; (ii) cash flow projections from the Group's existing business; (iii) cash and cash equivalents on hand; and (iv) available banking facilities, the Directors consider that the Group has sufficient financial resources for its existing business development for the next 12 months from the date of this circular.

In respect of garment business, fashion business and the Innovative Business of the Group, such businesses will be financed by deposits paid by the customers. Up to the Latest Practicable Date, the Directors do not anticipate any immediate funding needs from such businesses. In respect of the mining business, given that construction of infrastructure will not begin prior to end of 2013, the Company considers that there will be no immediate funding needs for mining business in the near future prior to construction of infrastructure. In respect of securities and money lending business, the Directors consider that such businesses will be subject to the prevailing market conditions. Up to the Latest Practicable Date, the Directors do not anticipate any immediate funding needs from such businesses.

In view of the above, up to the Latest Practicable Date and based on currently available information, the Company does not anticipate any immediate funding needs for the Group's existing business activities and does not have any intention to carry out any fund raising exercise within the next 12 months.

Over the past few years, in view of the unsatisfactory financial performance of the Group since 2006 with loss-making results, the management of the Group continued to review its existing businesses from time to time and strived to improve the business operation and financial position of the Group. It has been the business strategy of the Group to proactively seek potential investment opportunities in order to enhance value of the Shareholders. The Directors consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio into new line of business with growth potential and to broaden its source of income.

The Directors consider that the Acquisition is in line with the Group's business diversification strategy and represents an attractive investment opportunity of the Group to tap into the PRC total home furnishing solutions market with growth potential and to generate diversified income and additional cashflow.

Along with the growth of the PRC economy and the rising disposable income of the PRC consumers, living standard of the PRC consumers has generally improved. Therefore, it is expected that there will be more home fitting-out, decoration and upgrade activities in the PRC with replacement of old household products with new products of better style, design, quality and features. In addition, there is a growing popularity of home fitting-out and decoration which reflects individual's taste and personal style. Functionality of the household products is not the only consideration in the selection process, style and design of products which reflect individual's unique tastes and lifestyle are becoming a significant consideration as well. The aforesaid trends in the PRC home fitting-out and decoration market will in turn drive the demand for total home furnishing solutions which will save customers' time and cost in obtaining stylish and personalized home furnishing design services, products and home fitting out works. In this connection, the prospect of PRC total home furnishing solutions is promising.

The Company intends to utilize Zhongshan Prado as a platform for extension of the Company's smart home business, however, up to date there has not been any concrete business plan being implemented between the Company and Zhongshan Prado as the Acquisition has not been completed yet. After Completion meetings will be held with the customers of Zhongshan Prado to discuss on the introduction and launching of the smart home business. In developing smart home business operation, it principally involves two aspects, namely (i) the technical know-how; and (ii) the hardware, such as remote control, router, etc which are required for a smart home. The Company considers that leveraging on the existing technical expertise possessed by the Innovative Business, the Group will be able to cater technical aspect of smart home business with immaterial cost addition. The Company considers that the additional capital requirement will be mainly on the hardware aspect, being principally equipment procurement costs in accordance with customers' requirement where such equipment procurement costs will be charged to customers and financed with deposits from customers. As such, the Company considers that the additional capital requirement in developing the smart home business would be immaterial and the businesses of the Target Group should be able to be self-financed as it is profit making. The capital commitments of China Household Furniture which will be due on 30 September 2013, should be financed by the fund generated from the Target Group. Up to the Latest Practicable Date, the Directors consider that the Target Group's internal resources will be sufficient to meet its capital commitment. In the event the Target Group's internal resources are insufficient for its capital commitment, the Company will consider to provide capital to the Target Group for financing its capital commitment for the shortfall amount (the "**Commitment Financing**"). Taking into account the maximum total amount of capital commitment of the Target Group, the Directors are of the view that the Group has sufficient capital in providing the Commitment Financing without causing any material impact to existing business operations of the Group. The Directors consider that even if the full amount of capital commitment is provided as the Commitment Financing, taking into account the working capital requirements of the Group's existing businesses and resources held by the Group, **up to the Latest Practicable Date, the Directors do not anticipate any immediate funding needs for the capital commitment and business operations of the Target Group and the Group's existing businesses and does not have any intention to carry out any fund raising exercise within the next 12 months.**

Apart from diversifying the business portfolio of the Group, the Directors believe that the Acquisition will also provide synergy to the Group's existing business.

Benefits to the Innovative Business

Currently, the principal products offered by the newly developed Innovative Business of the Group are the interactive kiosks. Interactive kiosks are innovative systems and intelligent products which support retailers in enhancing customers' in-store shopping experience hence boosting revenue of retailers.

The Group intends to develop and produce the interactive kiosks in different shape or in different style upon request of the potential customers. New designs of interactive kiosk products may appear in the form of furniture style with the intelligent products being encased, for instance, a teapoy style kiosk. As such, wooden materials constitute a major component in the production of interactive kiosks.

The Acquisition will enable the Group to gain access to materials of various styles at a price lower than the market price leveraging on the Target Group's established network with materials suppliers, therefore, lowering the production costs of new kiosk products and improving the profit margin in new product launch of kiosk products.

Moreover, given the Target Group's proposed development in retail home furnishing business, the interactive kiosks will be valuable to the Target Group in providing an interactive and innovative simulation of outcome of the interior design concept to customers visiting its retail shops. Therefore, the Acquisition will open up business opportunities for the Innovative Business in adoption of interactive kiosks to the retail network to be established by the Target Group. Hence, it will allow the Innovative Business to extend its current applications to include one-stop home furnishing solutions sector for enhancing market coverage and penetration of the Innovative Business.

Enhancing new business development potential of the Enlarged Group into smart home business

It has been the business strategy of the Group to enhance its business portfolio by broadening its products range and business offerings. The Group intends to expand its business portfolio by acquiring the Target Group in order to explore new business development potential in smart home business by collaborating resources of the Innovative Business and the Target Group.

A smart home is equipped with home automation solutions which will enable the occupants to remotely control or program an array of home automation activities. Home automation may include control of lighting, heating, ventilation, air-conditioning, home security system, home appliances, home theatre or entertainment system, etc, to provide improved convenience, comfort, energy efficiency and security. A smart home is featured with the integration of information technologies with home environment, systems and appliances. It is anticipated that with the proliferation of broadband technology and the gaining popularity of smartphones, it will spur the development of home automation products, hence driving the demand for smart home solutions.

In providing smart home solutions, it requires the use of information technology and wiring technology to control home appliances, systems and features through mobile devices, computer or other web-enabled devices. Leveraging on the technical capabilities of the Innovative Business in offering wireless home automation technologies through mobile devices for smart home and the business connection and expertise of the Target Group in the PRC home furnishing solutions market, the Acquisition will allow the Innovative Business and the Target Group to consolidate and utilize their complementary core competitive strengths in supporting each others to tap into a new market, the smart home business.

In this connection, the Acquisition will facilitate diversification of the business portfolio of the Innovative Business into smart home market by utilizing its technical capabilities. Concurrently, it will further extend the scope of home furnishing solutions of the Target Group by incorporating a newly added technology-related element to its existing business offering for strengthening its development as a total PRC home furnishing solutions provider. Through consolidation of resources of the Group and the Target Group as discussed above, it will enable the Enlarged Group to differentiate from its competitors by providing services and solutions with higher added-value, hence improving the competitiveness of the Enlarged Group.

Benefits to the Group's fashion business

As part of the business plan for the Group's retail fashion business which targeted at high-end customers, retail fashion shops with unique and stylish interior design may be opened. In addition, the interior decoration of the retail fashion shops may be changed seasonally or to match with the marketing campaign of the Group. As such, there may be recurring demand for retail shop furnishing solutions by the Group's retail fashion business. In this regards, leveraging on the business connections and expertise of the Target Group in interior design and home furnishing solutions, the Acquisition will help to reduce decoration expenses of the Group's retail fashion shops in the long run.

Developing potential synergies and operational efficiencies

Moreover, the Acquisition will generate potential synergy, such as creating cross selling opportunities by utilizing customer base and network of the Group and the Target Group and improving operational efficiencies through sharing of resources and expenses (such as marketing and promotion expenses, technology related expenses).

Upon Completion, the Target will become a subsidiary of the Group and the financial results of the Target Group will be consolidated into the Group's financial statements. Up to the Latest Practicable Date, the Company has not entered into, nor propose to enter into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, and negotiation (whether concluded or not) with an intention to dispose, scale-down and/or terminate of its existing business. However, should suitable business opportunities arise in the future, the Group will continue to explore and consider any of such business opportunities, including acquisitions or realisations, which are in line with the Group's business strategies and may enhance the Group's future business development. As at the Latest Practicable Date, the Group has not identified any other business targets for acquisitions or realisatons. Up to the Latest Practicable Date, the Company has no intention to change the composition of its Board upon Completion. Furthermore, there is no provision in the Sale and Purchase Agreement that the Vendor can appoint or nominate any directors to the Board.

The Directors consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, each of the members of the Target Group will become an indirect wholly-owned subsidiary of the Company and the financial information of the Target Group will be consolidated into the consolidated financial statements of the Group.

As referred to in the interim report of the Group for the six months ended 30 June 2012, the unaudited consolidated net assets of the Group as at 30 June 2012 amounted to approximately HK$1,393.2 million, comprising total assets of approximately HK$1,746.9 million and total liabilities of approximately HK$353.8 million. As referred to the annual report of the Group for the year ended 31 December 2011, the total loss for the year ended 31 December 2011, attributable to the equity holders of the Company, was approximately HK$198.7 million.

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma net assets of the Enlarged Group would amount to approximately HK$1,391.2 million as at 30 June 2012, comprising unaudited pro forma total assets of approximately HK$1,837.1 million and unaudited pro forma total liabilities of approximately HK$445.9 million, and the unaudited pro forma loss of the Enlarged Group attributable to equity holders of the Company would be approximately HK$204.60 million for the year ended 31 December 2011.

The professional fees and other costs of the Acquisition were approximately HK$2.0 million.

As stated in the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, the Enlarged Group has an unaudited consolidated pro forma cash and cash equivalents of approximately HK$19.7 million as at 30 June 2012. The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2012 is prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2012; and (ii) the audited combined statement of financial position of the Target Group as at 31 August 2012 as extracted from the accountants' report as set out in Appendix III to this circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes, as if the Acquisition had been completed on 30 June 2012.

Goodwill

The Directors are of the opinion that the trademark in the name of "Prado" which under application (collectively, the "Intangible Assets") of approximately HK$3,548,000 could be separately identified and recognized from the Goodwill (as defined below). Zhongsha Prado has submitted their two applications of trademark to PRC government authority on 31 March 2012 and 10 April 2012 respectively and based on the advice of the Company's PRC legal advisors, the Directors considers the probability of failure to apply the trademark is relatively remote. As such, the Directors consider the recognition of trademark as intangible assets is appropriate. In other words, the certificates for the trademark applications of "Prado" are expected to be issued by March 2013 and April 2013 respectively.

According to the PRC laws and regulations, the certificate of trade mark registration will be issued after with 8 to 12 months from the date of application.

If the Target Group's applications for registration of the trademark of "Prado" was unsuccessful, depending on the reasons for the unsuccessful registration of the trademark, there will be a possible loss of protection to the Target Group to use the trademark "Prado". The financial impact resulting from such will be subject to the business performance and prevailing market condition and cannot be ascertained at the moment.

As if the acquisition was completed, the Group would have recognized goodwill (the "Goodwill") of approximately HK$39,120,000.

The principal component of goodwill represented the excess of the fair value of the consideration transferred, over the fair value of the Target Group's identifiable assets and liabilities and the fair value of the Intangible Assets as at the acquisition date. Goodwill related to (i) the potential innovative business development of the Enlarged Group into smart home business as detailed under the paragraph head "Reasons for and Benefits of the Acquisition"; and (ii) developing potential synergies and operational efficiencies as detailed under the paragraph head "Reasons for and Benefits of the Acquisition".

The auditors will adopt consistent accounting policies and principal assumptions and the auditors anticipate that there will be no impairment on the Goodwill recgonised in the first set of the Group's financial statements after the completion of the Acquisition.

Impairment review on the Goodwill

The Company has engaged an independent valuer, GA Valuation Limited, to determine the fair value of 100% equity interest in the Target Group (the "Business Valuation") as at 31 August 2012, pursuant to which, the fair value of 100% equity interest in the Target Group is in excess to its carrying amount of the identifiable assets and liabilities of the Target Group together with the Goodwill. During the course of their review, nothing has come to the auditors' attention that causes them to believe that the bases and assumptions (including but not limited to (i) growth rate; (ii) discount rate; (iii) gross margin; and (iv) capital expenditures for the period commencing at the end of year 2012), relating to the Business Valuation, have not been made by the Directors after due and careful enquiry. Accordingly, the auditors concur with the Directors that there is no impairment indication on the Goodwill under Hong Kong Accounting Standard 36 up to the Latest Practicable Date and in the first set of the Group's financial statements after the completion of the Acquisition.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon Completion, the Target Group will become subsidiaries of the Company and the financial information of the Target Group will be consolidated into the consolidated financial statements of the Group. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, the revenue and gross profit of the Group for the year ended 31 December 2011 was approximately HK$25.7 million and HK$4.2 million, respectively, and the unaudited pro forma revenue and gross profit of the Enlarged Group will be approximately HK$25.7 million and HK$4.2 million, respectively, after Completion.

In coming year, after Completion, the Enlarged Group will continue to develop its existing Innovative Business and to further enhance the business portfolio and customers base of the Group and to improve its business performance. In view of the improving economic growth of the PRC, where the general living standard of the PRC consumers has been improved, the Directors are optimistic about the growth prospect of the total home furnishing solutions industry in the PRC. The Directors consider that the Acquisition will enable the Group to broaden its business offering and tap into the PRC total home furnishing solutions market. In addition, the Acquisition will open up business opportunities for the Innovative Business. After Completion, given the proposed retail network to be established by the Target Group for its retail home furnishing business, it will facilitate the Innovative Business to extend application of its interactive kiosk and diversify its customer base into the PRC total home furnishing solutions market. Apart from diversifying customer base of the Innovative Business, the Directors also consider that the Acquisition will facilitate the Enlarged Group to pursue business development in new market, the smart home business, by consolidating complementary core competitive strengths of the Target Group and the Innovative Business. Therefore, the Acquisition will enhance the operation base and the future income base of the Enlarged Group. The Acquisition will create meaningful synergies and strengthen the overall competitiveness of the Enlarged Group, particularly: (i) diversifying the business offering and customers base of the Innovative Business; (ii) enabling the Group to gain access to materials for kiosk production of the Innovative Business and for retail shop furnishing of the Group's fashion business at competitive price leveraging on the Target Group's established network with materials supplier; (iii) enhancing new business development potential of the Enlarged Group into smart home business; (iv) creating potential cross selling opportunities clients of the Enlarged Group; (v) potential benefit to the Enlarged Group in better allocation and management of resources such as in marketing and technology activities for improving operational efficiencies; and (vi) broadening the income source of the Enlarged Group. The Directors also believe that the Acquisition will lead to the diversification of the Group's existing business portfolio, thereby providing significant growth potential for the Group.

In view of the synergistic benefits of the proposed Acquisition, the Directors believe that the proposed Acquisition is in the interest of the Company and its Shareholders as a whole.

The market conditions of sales of fabrics, garments and accessories are expected to remain uncertain as the industry faces several challenges, including slow recovery of global economy, the European sovereign debt crises and keen market competition. For the slower than expected US recovery that led to conservative consumer consumption together with two consecutive years decline in the US and Europe garment import, resulting in negative impact on the Group's profitability. Meanwhile, the Mainland China economy remains relatively slower than last year although a slight growth is still expected, thus, the Group believes the business environment of the sales of fabrics, garments and accessories could remain challenging in the near future.

In coming year, the Enlarge group will continue to strengthen the existing business, emphasize development of customer relations, actively develop high value added products and markets as well as to direct efforts in increasing sales in the PRC market and other cities with high growth potential. The Directors consider that the Group's proposed development of its own branded products, being at the upper part of the garment and fashion business value chain that the Group's existing trading business of fabric and garment, will have higher added-value and profit margin. Regarding its own branded products, the Groups intends to draw the attention of those domestic high-end wedding and evening dress brand enterprises in Hong Kong to the Group's featured fashion products. As part of the business plan for the Group's retail fashion business which targeted at high-end customers, retail fashion shops with unique and stylish interior design may be opened.

For the mining business, the Group is still in the process of obtaining all relevant licenses and approvals, construction of infrastructure will not begin prior to the end of 2013 and the revenue will be generated in year 2016. Supported by the report from the China Iron and Steel Association, despite the government's tightened property market control measures, enterprises in the construction and real estate sector still managed to secure steady growth. Hence, The Group will keep abreast of changing market conditions and will adjust the business strategies to come up with any opportunity of mining business.

For the money lending business, the Group is positive about the outlook for its business. The financing needs of SMEs create immense demand for the Group's service and the recent credit tightening measures imposed by Hong Kong Monetary Authority on property mortgage loans to be granted by authorized institutions, the Group believe that there will be growing demand for our loan products from different customer groups which will further enhance our loan portfolio. In further, the Group will keep looking for investment opportunities to further expand its service and also focus on risk management. By balancing risk exposure and allocating resources effectively, the Group is confident that this practice will be responsive to market change and needs and to have revenue growth continuously.

RISKS ASSOCIATED WITH THE ACQUISITION

- **The Target Group is a start-up business with relatively short track record and there is no assurance that its business will be successfully developed**

  The Target Group is a new start up and has relatively short track record of revenue generating. The business relationship with the customers of the Target Group is relatively short on average as it has only begun its business operations recently. In light of the short business relationships, there is no assurance that the customers will continue to place orders with the Target Group or that they will not turn to alternative suppliers. Should the Target Group fail to conduct business with its customers on the long term, its business operations and financial performance may be adversely affected.

  The proposed development of total PRC household solutions envisaged by the Target Group has not yet gained significant market recognition in the PRC. The market demand for this kind of total household solution in the future is not yet proven. The Target Group's business strategy is subject to the test of time in the market place and the Directors cannot be certain that the Target Group will achieve market acceptance.

- **The Target Group may not be able to adapt to its customers' varying requirements.**

  Customers' tastes and preference varies from time to time. Part of the Target Group's success depends on its ability to respond to changing customers preferences in a timely manner. If the Target Group fail to identify and respond to the emerging consumer trends in its business offering, the Target Group may not be able to source all types of products for its customers, thus it may lead of loss of customers. Customers of the Target Group may reduce their purchases or cease to place order with the Target Group. Any fluctuation in size or volume of purchase orders could materially and adversely affect the profitability and results of operations of the Target Group.

- **Reliance on a few major customers**

  For the eight months ended 31 August 2012, the Target Group derived the entire revenue from three customers. The Target Group only enters into short-term sales contracts instead of long-term agreements with its major customers. There is no assurance that the major customers will continue to do business with the Target Group. If one or more major customers cease to conduct business with the Target Group and the Target Group fails to expand the business with existing customers or attract new customers, the business, results of operations and financial condition of the Target Group may be adversely affected.

- **Reliance on suppliers**

  The Target Group has not entered into any long-term agreements with majority of the suppliers, it cannot be assured that they will always provide a reliable source of requisite supplies to the Target Group. Two of the factors which affect the sustainability of the Target Group's profit margin are the selling price and the procurement costs. There is no assurance that the Target Group will be able to continue to source materials from the suppliers with profitable margin. If any of the major suppliers of the Target Group cease to supply materials to the Target Group and the Target Group cannot find suitable alternative suppliers with comparable quality and prices within a reasonable period of time, its operations may be adversely affected.

- **Reliance on key management**

  The Target Group's operation is dependent on the management, expertise and experience of its key management. If the Target Group is unable to retain these key personnel and key employees or if the Target Group is unable to find replacements of key personnel and key employees with comparable experience and expertise, the business operation of the Target Group may be adversely affected.

- **Competition in the PRC total household solutions industry**

  Development of the PRC total household solutions market is relatively new and the Target Group is one of the early movers in this area. While the Target Group may enjoy the advantage of an early mover, there is no assurance that the Target Group will be able to compete against its competitors. If the Target Group is unable to compete effectively against the competitors by maintaining the Target Group's competitive advantages or to timely respond to a changing business environment, its results of operations may be adversely affected. In addition, any increase in competition may adversely affect the Target Group's market share. Any of these events could have a material adverse effect on the Target Group's financial condition, results of operations and future prospects.

- **Uncertainty in the business plan of the Target Group**

  The business plan of the Target Group is dependent upon certain assumptions on future events, including but not limited to ability to access to adequate supplies of materials, good business relationship with suppliers, interior fitting-out services providers, customers and establishment of retail network. By nature, these assumptions are subject to uncertainty and therefore it cannot be assured that the Target Group will be able to achieve its planned business operations and profits. Should any of its business plans not materialize as planned or become delayed, its business operations may be greatly and negatively affected, which could result in a significant decrease in profits.

  In addition, the financial projections in relation to the Target Group's business adopted in the Valuation Report are subject to significant uncertainties and unforeseen circumstances which could adversely affect the operation and profitability of the Target Group. There is no assurance that such financial projections can be sustained or materialized.

- **Reliance on the PRC market for the business and operations of the Target Group**

  PRC is the major market of the Target Group, therefore, the demand for the Target Group's products is sensitive to the changes in the general economic conditions in the PRC. The Target Group's results of operation are expected to continue to be dependent to a significant extent on the overall growth of the domestic market in the PRC. Should there be any significant adverse changes in the market conditions of the PRC, it may adversely affect profitability and performance of the Target Group.

  In addition, given that the Target Group is operating in the PRC, it will be subject to the economic, political and legal environment of the PRC. The existence of unfavourable government policy in relation to the conduct of business in general or in areas specific to the Target Group's business in the PRC or failure by the Target Group to comply with laws and regulations governing the Target Group's business in the PRC and to obtain the necessary licences, approvals and authorizations from relevant PRC government authorities may adversely affect the Target Group's intended development and future operation in the PRC.

- **Registration of the Target Group's trademark is still pending approval**

  As at the Latest Practicable Date, the registration of trademark in the name of "Prado" of the Target Group has not yet been approved. There is no assurance that the Target Group will not encounter any difficulties or objections to the pending trademark applications. In addition, there can be no assurance that the use of such trademark by the Target Group will not infringe the intellectual property rights of any third party or violate any laws and regulations of the PRC. Any liability claim in relation to the use of such trademark by the Target Group, made or threatened to be made against the Target Group in the future, regardless of its merits, could result in costly litigation and strain the Target Group's administrative and financial resources. However, based on the advice from the PRC legal advisers, the possibility of failure of trademark application is considered to be relatively remote.

- **The business and operations of the Target Group may be adversely affected by the current global economic crisis**

  The current global economic crisis is adversely affecting the global economy. As a result, demand for the products of the Target Group may decline and the prices of its products may need to be lowered in order to retain its existing customers or attract new customers, which would adversely affect its profit level.

If any of its customers suffer financial difficulties as a result of the current global economic crisis, the demand for its products may be reduced and these existing orders may be cancelled. If any of its suppliers suffer financial difficulties as a result of the current global economic crisis, its ability to obtain supplies may also be affected. It cannot be assured that its customers or suppliers will not be affected by the current financial crisis. In such circumstances, its operations and financial performance may be adversely affected.

LISTING RULES IMPLICATIONS

As some of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition for the Company and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

In this connection, the SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the relevant resolutions in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) the Vendor and its ultimate beneficial owner are third parties independent of the Company and its connected persons; and (ii) the Vendor, its ultimate beneficial owners and their respective associates did not hold any Shares, or options or securities convertible or exchangeable into Shares as at the Latest Practicable Date. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition which is different from the other Shareholders. Therefore, no Shareholder is required to abstain from voting on the relevant resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. If the Vendor and its respective associates hold any Shares on the date of the SGM, they will be required to abstain from voting on the relevant resolutions to be proposed at the SGM in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder.

THE SGM

A notice convening the SGM is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to be present at the SGM, you are advised to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor

Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the SGM. The completion and delivery of a form of proxy will not preclude you from attending and voting at the meeting in person.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the Sale and Purchase Agreement was entered into in the ordinary and usual course of business of the Company. The terms of the Sale and Purchase Agreement were agreed on normal commercial terms and are fair and reasonable and in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) would recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Bao Yuan Holdings Limited
Wong Man Pan
Executive Director

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

		HK$
Authorized:		
1,500,000,000,000	Shares	1,500,000,000
Issued and fully paid:		
2,186,648,298	Shares	2,186,648.298

All Shares currently rank pari passu in all respects with each others, including, in particular, as to dividends, voting rights and return of capital.

No part of the share capital or any other securities of the Company is listed on or dealt in any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed on or dealt in any other stock exchange.

As at the Latest Practicable Date:

(i) save for the outstanding convertible bonds and the share options granted by the Company which have been disclosed by the Company previously, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares;

(ii) there were no arrangements under which future dividends are waived or agreed to be waived; and

(iii) no Share or loan capital of the Company or any members of the Group had been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted, except for those securities which have been previously disclosed by the Company.

3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company or their respective associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange are as follows:

The Company:

Name of Director	**Nature of interest**	**Number of Shares held**
Mr. Yiu Kwok Ming, Tommy	Personal Interests	51,812

Interests in underlying Shares:

The Directors have been granted options under the share option scheme of the Company which was adopted on 27 May 2002. As at Latest Practicable Date, the share options that are still outstanding under the said scheme in respect of the Directors' interests are as follows:

Executive Directors	Grant Date	Exercise Price	Number of Shares	Exercise period
Mr. Yiu Kwok Ming, Tommy	26 September 2006	HK$4.655	48,238	30 November 2007 — 25 September 2016
	11 June 2008	HK$33.193	57,917	11 June 2008 — 10 June 2018
	Total		106,155	

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

4. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors, no other person or companies (other than the Directors or the chief executive of the Company) had an interest or short positions in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Long/short position in the shares and underlying shares of the company

Name of substantial Shareholders	Number of Shares	Approximate percentage of issued share capital of the Company
Tse Ling Ling	190,000,000	8.69%
Lam Man Tung	111,967,547	5.12%

5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, there is no contract or arrangement entered into by a related party subsisting in which a Director is materially interested and significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors or proposed Directors or expert has, directly or indirectly, any interest 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) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or the substantial Shareholders (as defined in the Listing Rules) and their respective associates was interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's businesses pursuant to Rule 8.10 of the Listing Rules.

7. LITIGATION

As at the Latest Practicable Date, the Enlarged Group was not engaged in any litigation, claim or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

8. SERVICES CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with any member of the Enlarged Group which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions and advices, which are contained in this circular:

Name	Qualification
Fortune Financial Capital Limited	A licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Ascenda Cachet CPA Limited	Certified Public Accountants
GA Valuation Limited	Independent valuer

Each of Fortune Financial Capital Limited, Ascenda Cachet CPA Limited and GA Valuation Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports and/or its letters dated 14 December 2012 and/or references to its name and/or its advice in the form and context in which they respectively appear.

10. EXPERTS' INTERESTS IN ASSETS

As at the Latest Practicable Date, each of Fortune Financial Capital Limited, Ascenda Cachet CPA Limited and GA Valuation Limited:

(a) was not interested, either directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2011, being the date to which the latest published audited consolidated accounts of the Group were made up; and

(b) did not have any shareholding in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

I. The Group

(a) the placing agreement dated 24 January 2011 entered into between the Company and Cheong Lee Securities Limited whereby the Company conditionally agreed to place a total of 980,000,000 placing shares to not less than 6 independent placees at a price of HK$0.0245 per placing share;

(b) the placing agreement dated 23 March 2011 entered into between the Company and Pico Zeman Securities (HK) Limited whereby the Company conditionally agreed to place a total of 58,000,000 new shares to not less than 6 independent placees at a price of HK$0.25 per placing share;

(c) the underwriting agreement dated 15 April 2011 entered into between the Company and Chung Nam Securities Limited whereby the Company issued not less than 7,746,713,546 rights shares and not more than 7,812,410,826 rights shares to the qualifying shareholders by way of the rights issue at subscription price of HK$0.05 per rights share on the basis of 22 rights shares for every one the then existing share of HK$0.02 each held on the record date;

(d) the share purchase agreement dated 30 August 2011 entered into among Sky Treasure Worldwide Limited ("Sky Treasure"), an indirectly wholly owned subsidiary of the Company, as purchaser, Union Prosper Limited ("Union Prosper") as vendor and the Company in relation to the acquisition of the entire issued share capital of m3 Technology Development Limited by the purchaser from the vendor for a consideration of HK$398,000,000 (the "m3 Acquisition");

(e) the supplemental share purchase agreement dated 8 September 2011 entered into among Sky Treasure, Union Prosper and the Company in relation to the m3 Acquisition;

(f) the second supplemental share purchase agreement dated 2 November 2011 entered into among Sky Treasure, Union Prosper and the Company in relation to the m3 Acquisition;

(g) the placing agreement dated 7 March 2012 entered into between the Company and Chung Nam Securities Limited whereby the Company conditionally agreed to place a total of 80,980,000 placing shares to not less than 6 independent placees at a price of HK$0.20 per placing share;

(h) the third supplemental share purchase agreement dated 26 March 2012 entered into among Sky Treasure, Union Prosper and the Company in relation to the m3 Acquisition;

(i) the underwriting agreement dated 24 April 2012 entered between the Company; Emperor Securities Limited and SinoPac Securities (Asia) Limited whereby the Company issue 1,700,726,454 offer shares to the qualifying shareholders by way of the open offer at the subscription price of HK0.12 per offer share on the basis of seven offer shares for every two shares held by the qualifying shareholders on the record date;

(j) the fourth supplemental share purchase agreement dated 28 May 2012 entered into among Sky Treasure, Union Prosper and the Company in relation to the m3 Acquisition;

(k) the fifth supplemental share purchase agreement dated 30 July 2012 entered into among Sky Treasure, Union Prosper and the Company in relation to the m3 Acquisition; and

(l) the sixth supplemental share purchase agreement dated 15 August 2012 entered into among Sky Treasure, Union Prosper and the Company in relation to the m3 Acquisition; and

(m) the Sale and Purchase Agreement

II. The Target Group

(a) the franchise agreement dated 31 May 2012 entered into by Zhongshan Prado in relation to appointment of an independent franchisee in Foshan for selling of products of Zhongshan Prado in designated region for a period of two years;

(b) the franchise agreement dated 9 June 2012 entered into by Zhongshan Prado in relation to appointment of an independent franchisee in Changsha for selling of products of Zhongshan Prado in designated region for a period of two years;

(c) the franchise agreement dated 17 June 2012 entered into by Zhongshan Prado in relation to appointment of an independent franchisee in Jiangmen for selling of products of Zhongshan Prado in designated region for a period of two years;

(d) the franchise agreement dated 10 July 2012 entered into by Zhongshan Prado in relation to appointment of an independent franchisee in Guangzhou for selling of products of Zhongshan Prado in designated region for a period of two years; and

(e) the franchise agreement dated 4 August 2012 entered into by Zhongshan Prado in relation to appointment of an independent franchisee in Shenzhen for selling of products of Zhongshan Prado in designated region for a period of two years.

12. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Tsang King Sun. Mr. Tsang is a member of the Hong Kong Institute of Certified Public Accountants and holds a Bachelor of Business Administration (Hons) degree in Accounting from The Hong Kong Polytechnic University.

(b) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in the case of inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at 25/F., Overseas Trust Bank Building, 160 Gloucester Road, Wanchai, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the SGM:

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

(b) the annual reports of the Company for the financial years ended 31 December 2010 and 2011 and the interim report of the Company for the six months ended 30 June 2012;

(c) the written consents referred to in the paragraph headed "Experts and Consents" to this Appendix;

(d) the material contracts referred to in the paragraph headed "Material Contracts" to this Appendix;

(e) the accountants' report of the Target Group, the text of which is set out in Appendix III to this circular;

(f) the unaudited pro-forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(g) the business valuation report of the Target Group, the text of which is set out in Appendix V to this circular;

(h) the letter from Fortune Financial Capital Limited in relation to the profit forecast, the text of which is set out in Appendix VI to this circular;

(i) the profit forecast report from Ascenda Cachet CPA Limited, the text of which is set out in Appendix VI to this circular;

(j) a copy of each of the circulars issued by the Company pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules since 31 December 2011, being the date of the latest published audited accounts of the Company; and

(k) this circular.

(1) THREE YEAR AND SIX MONTH FINANCIAL INFORMATION

Financial information of the Group for the year ended 31 December 2009, year ended 31 December 2010, year ended 31 December 2011 and six months ended 30 June 2012 are disclosed on pages 26-96 of the 2009 annual report published on 28 April 2010, pages 23-101 of the 2010 annual report published on 12 April 2011, pages 27-107 of the 2011 annual report published on 18 April 2012 and pages 2-25 of the 2012 interim report published on 3 September 2012 of the Company respectively, which were published on both the Stock Exchange website (www.hkexnews.hk) and the Company's website (www.baoyuan.com.hk).

(2) STATEMENT OF INDEBTEDNESS OF THE ENLARGED GROUP

INDEBTEDNESS

Borrowings

As at 31 October 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following outstanding borrowings:

	Non-current portion	**Current portion**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Bank overdrafts, secured *(note 1)*	—	424	424
Convertible Bond I — liability component *(note 2)*	2,475	—	2,475
Promissory Note I *(note 3(a))*	185,437	—	185,437
Promissory Note III *(note 3(b))*	143,984	—	143,984
Due to shareholder of the Target Group *(note 4)*	—	3,904	3,904
	331,896	4,328	336,224

Notes:

1. The Enlarge Group's credit facilities granted by banks were secured by the following:

   (a) guarantees given by one of the Company's directors, and an ex-director of the Company and certain minority shareholders of its subsidiaries to the extent of approximately HK$46,500,000, HK$2,650,000 and HK$56,500,000, respectively;

   (b) guarantee given by one of the Enlarged Group's related company to the extent of approximately HK$5,000,000;

   (c) charges over a bank deposit of the Enlarged Group's subsidiary of approximately HK$1,000,000; and

   (d) charges over a bank deposit of the Enlarged Group's related company of approximately HK$5,000,000.

2. Pursuant to sales and purchases agreements (the "m3 Agreements") dated 8 September 2011 and 26 March 2012, the Group acquired ("m3 Acquisition") 100% equity interest in m3 Technology Development Limited and 深圳市泓訊科技有限公司 at a consideration of HK$398,000,000, of which, (i) as to HK$50,000,000 was satisfied by way of the issue of a convertible bond to a vendor; (ii) as to HK$228,000,000 was satisfied by way of the issue of the 3% promissory note; and (iii) as to HK$40,000,000 was satisfied by way of the issue of another 2% promissory note. Upon the completion of the m3 Acquisition on 3 September 2012 (the "m3 Acquisition Completion Date"), the Company issued 2% convertible bond (the "Convertible Bond I") with a nominal value of HK$50,000,000 to the vendor. The Convertible Bond I are convertible into ordinary shares on or before the third anniversary from the issue date of the Convertible Bond I at the initial conversion price of HK$0.12 per share, subject to adjustment for dilution events. The Convertible Bond I carries interest at a rate of 2% per annum. At the issue date, the principal amount of the Convertible Bond I was HK$50,000,000 which comprises the equity component and principal amount of liability component of HK$47,568,000 and HK$2,432,000, respectively. As at 31 October 2012, the carrying amount of the liabilities component of the Convertible Bond I at amortised cost was approximately HK$2,475,000.

3. As at 31 October 2012, the Enlarged Group had the following outstanding promissory notes:

   (a) Upon the m3 Acquisition Completion Date, the Company issued (i) 3% promissory note (the "Promissory Note I") with a principal amount of HK$228,000,000 for a term of 3 years; and (ii) promissory note ("Promissory Note II") with a principal amount of HK$40,000,000 for a term of 18 months. Promissory Note II bears interest at a rate of 2% per annum for the first 6 months since the issue date and at 6% per annum thereafter. Pursuant to the m3 Agreements, the Company was granted an early redemption right to redeem the Promissory Note 1 and/or Promissory Note II (in whole or in part) at anytime before the maturity date. On 21 August 2012, the Company have exercised its early redemption right to redeem the Promissory Note II of HK$40,000,000. As at 31 October 2012, the outstanding principal amount of the Promissory Note I was HK$228,000,000 and the present value of the Promissory Note I of HK$182,180,000. As at 31 October 2012, the carrying amount of the Promissory Note I at amortised cost was approximately HK$185,437,000.

(b) On 30 March 2010, the Company issued 2% convertible bonds (the "Convertible Bond II") with a nominal value of HK$1,680,000,000. The Convertible Bond II is convertible into ordinary shares on or before the third anniversary from the issue date of the Convertible Bond II at the initial conversion price of HK$0.22 per share, subject to adjustment for dilution events. The outstanding principal amount of the Convertible Bond II as at 30 September 2012 was HK$251,800,000 which comprises the equity component and principal amount of liability component of HK$77,263,810 and HK$174,536,190, respectively. The carrying amount of the liability component of the Convertible Bond II at amortised cost was approximately HK$216,197,000.

On 10 October 2012, the Company entered into an agreement with Maple Creation Limited (the "Bondholder II), pursuant to which, (i) the Company shall repay the entire outstanding amount of the Convertible Bond II on 10 October 2012 by way of issuing a promissory note (the "Promissory Note III"); and (ii) the Bondholder II agreed to accept a payment in the sum of 80% of the outstanding principal amount of the Convertible Bond II as full and complete settlement of the entire outstanding principal amount under the Convertible Bond II. Accordingly, the Company issued 4% Promissory Note III with a principal amount of HK$173,698,402 for a term of 3 years. As at 31 October 2012, the outstanding principal amount of the Promissory Note III was HK$174,536,190. As at 31 October 2012, the carrying amount of the Promissory Note III at amortised cost was approximately HK$143,983,000.

4. The amount due to the shareholder of the Target Group is unsecured and interest-free. The amount will be waived by the shareholder of the Target Company before the completion of the Acquisition.

Contingent liabilities

As at 31 October 2012, the Enlarged Group had no material contingent liabilities.

Commitments

As at 31 October 2012, the Enlarged Group had capital commitment of approximately HK$491,436,000 in respect of the construction cost for the mining infrastructure; and operating lease commitments of approximately HK$3,175,000 in respect of the leases for certain of its office properties.

Disclaimers

Save as aforesaid herein and apart from intra-group liabilities, as at 31 October 2012, the Enlarged Group had no debt securities issued and outstanding, and authorised or otherwise created but issued, term loans, distinguishing between guaranteed by the Enlarged Group, guaranteed by independent third parties, unguaranteed, secured and unsecured bank borrowings including, bank loans, bank overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

No material changes

Save as disclosed herein, the Directors confirmed that there have not been any material changes in the indebtedness of the Enlarged Group since 31 October 2012 up to the Latest Practicable Date.

(3) WORKING CAPITAL STATEMENT

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources available to the Enlarged Group, including the internally generated funds, cash and cash equivalents on hand and the available banking facilities, the Enlarged Group has sufficient working capital for the 12 months from the date of publication of this circular.

(4) MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm there is no material adverse change in the financial or trading position of the Group since 31 December 2011, the date to which the latest published audited consolidated financial statements of the Company have been made up.

(5) MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is a discussion and analysis of the Group's results of operation for each of the three years ended 31 December 2011 and the six months ended 30 June 2012. The information set out below is principally extracted from the "Management Discussion and Analysis" sections of the annual reports of the Company for 2009, 2010 and 2011 and the 2012 interim report of the Company respectively, in order to provide further information relating to the financial condition and results of operations of the Group during the periods stated.

(a) Management discussion and analysis for the six months ended 30 June 2012

Financial Results

The Group's unaudited consolidated loss attributable to owners of the Company for the six months ended 30 June 2012 was HK$48.0 million compare with the attributable loss of HK$40.8 million in the same period last year. The loss was mainly attributable to the decrease in other income and turnover with the change in the sales team of a subsidiary and the increase of the administrative expense in money leading business and the fashion business.

For the first half of financial year of 2012, the Group unaudited turnover was HK$5.2 million, representing a 74% decrease over the corresponding figure of HK$19.7 million in the same period last year. The decrease was primarily inflecting in lower average selling price and sales volume, revenue from the production and sales of garment due to the difficult economic environment in Europe caused by factors including concerns over default of European debts has led to lower consumer confidence and demand for textile products. Nevertheless, the decrease in average selling price of products negatively impacted the revenue from production and sales of garment and accessories of approximately HK$2.6 million, resulting in a decrease of approximately 87% as compared with the same period last year. However, the Group has undergone re-positioning of sales and marketing efforts and strategies to fully capture macro market opportunities.

Administrative expenses of the Group for the six months ended 30 June 2012 with increase significantly to approximately HK$31.9 million, representing an increase of 284% as compared with HK$8.3 million of the same period last year. The level of total operating expenses increased is mainly reflecting additional legal and professional fees incurred for the acquisition of the technology business, increase in total staff benefits including salaries and other staff costs paid to the Directors and administrative staff due to the developing the fashion business expansion.

Review of operation

Sale of fabrics, garments and accessories

For the first half of financial year 2012, buffeted by financial turbulence, the global economic recovery was progressed slowly and erratically. The ongoing European sovereign debt crises have seriously dampened customer's confidence. The economic woes and unfavorable consumer sentiment have adversely affected the apparel industry as retail customers are also more closely watching their budgets. Against the backdrop, the Group experienced a severe deterioration in US sales orders during the first half of 2012. The turnover of the Group plummeted by 87% to HK$2.6 million for the six months ended 30 June 2012 compared with the same period last year.

Mining Business

On 30 March 2010, the Group acquired a mining company in order to broaden the income base of the Group and diversify its business into non-ferrous industry. The mining company held a mining licence under which the company has the right to conduct mining and exploitation works in a mine located at Ziyang County, Shaanxi Province, the PRC.

On 31 December 2011, the Group engaged an independent valuer, to assess the recoverable amount of the exploration and evaluation asset, pursuant to their valuation report, an impairment loss of approximately HK$160,829,000 on the exploration and evaluation assets was made by the Group.

During the period under review, the application for the PRC approval of 陝西省紫陽縣桃園 — 大柞木溝磁鐵礦 (the "**Mine**", literally translated as Shaanxi Province Ziyang Country Taoyuan-Dazuomugou Taicitie Mine), an iron and titanium dioxide mine, is still in progress and the Group did not have any operation in mining business. Meanwhile, the Group has submitted the application for the licence to the relevant authorities in order to commence the production in the upcoming future. The approval procedures were still in progress as at 30 June 2012 but the Group expected the licence will be obtained in next year. There is no change in the mining plan since 31 December 2011 and the directors are of the opinion that the progress is in line with the mining plan and the Group will obtain all the required licences and approvals by the end of 2013. By that time, the Group will commence the construction of infrastructure. It is estimated that trial production of the mine will commence by the end of 2016. Subject to obtaining necessary licenses, approvals and permits, commercial production will start following trial production. Mine production is expected to commence in 2017. The mining production schedule consists of three phases. Extra annual production capacity will be added in phase 2 and phase 3 upon construction of additional mining related infrastructure. The estimated annual production capacity will be approximately 600,000 tonnes, 1.5 million tonnes and 3 million tonnes in phase 1, phase 2 and phase 3 respectively. The estimated time of completion of phase 1, phase 2 and phase 3 will be 2016, 2017 and 2018 respectively. Upon completion of each phase, the annual production capacity will be achieved in the year following its completion. In the trial run period of each phase prior its completion, extra production capacity will be added to that period. Therefore, the production schedule will be on an upward trend. According to the estimated development and production schedule of the Mine, it will start from an estimated annual production capacity of approximately 900,000 tonnes in 2017 (being sum of phase 1 production capacity of 600,000 tonnes as estimated to be completed in 2016 plus added production capacity from trial run of phase 2) to 2 million tonnes in 2018 (being sum of phase 2 production capacity of 900,000 tonnes as estimated to be completed in 2017 plus added production capacity from trial run of phase 3) and further rises to 3 million tonnes (being phase 3 production capacity of 3 million as estimated to be completed in 2018) in 2019.

During the period under review, the mining business recorded a loss of approximately HK$1.0 million, which was mainly attributable to administrative expenses.

The Group owns the mining rights with a total area of 7.89 square km. During the period under review, details of the resources and reserves are shown below:

Resources and Reserves of the iron ("TFe") and titanium dioxide ("TiO_2") mines under the JORC Code

(a) Resource summary (include reserves)

	Tonnage	Grades		Contained metals	
	(Mt)	TFe (%)	TiO_2 (%)	TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Measured and indicated	40.7	29.4	13.9	11,966	5,655
Inferred	18.2	29.9	13.6	5,442	2,475
Dazuomugou area					
Measured and indicated	9.9	29.5	13.0	2,920	1,287
Inferred	11.1	29.1	13.9	3,230	1,543

(b) Reserve summary

	Tonnage	Grades		Contained metals	
	(Mt)	TFe (%)	TiO_2 (%)	TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Proved	21.5	29.4	14.0	6,321	2,996
Probable	19.2	29.4	13.8	5,645	2,650
Dazuomugou area					
Proved	—	—	—	—	—
Probable	9.9	29.5	13.0	2,920	1,287

There is no material change in the estimated reserves and resources of the Group's iron and titanium dioxide mines as of six months ended 30 June 2012, and the estimated iron and titanium dioxide reserves and resources as of 31 December 2011 are set out in the table above

Fashion design

Since the business was just started in the late 2011, it recorded a loss of HK$4.3 million for the six months ended 30 June 2012, which was mainly attributable to the administrative expense of developing the fashion business.

Trading of securities

During the first half year of 2012, the stock market in Hong Kong remained weak and fluctuated due to the economic downturn in the United States and triggered by the unresolved European debt issue. Hence, the Group's securities portfolio has suffered a loss on trading of securities of approximately HK$380,270 for the six months ended 30 June 2012.

Money lending business

The money leading business segment generated interest income of HK$2 million for the six months ended 30 June 2012 whilst the Group had not yet commenced such business for the six months ended 30 June 2011.

The market has also become more aware of the Group's loan products and services and more customers have approached the Group for financing services during the period under review which increase business opportunities of the Group. In the meantime, the Group shall endeavor to expand its loan portfolio by broadening customer and revenue bases according to the prevailing market conditions and observing our different customers' financial needs.

Prospect and Outlook

Sale of fabrics, garments and accessories, fashion design

The market conditions of sales of fabrics, garments and accessories are expected to remain uncertain as the industry faces several challenges, including slow recovery of global economy, the European sovereign debt crises and keen market competition. The adverse macro environments may continue to affect customers' confidence and hence lower demand for textile products. The US and European customers still remain cost conscious. Price competition remains in the market and revenue of this segment have deteriorated continuously. Hence, the expected revenue from this segment remains conservative due to the constant severe challenges in the industry. The Group will diversify the customer bases and continue its conservative strategy by deploying its financial resources only in high profit margin orders, sourcing quality dyed fabrics and adopting stringent cost control measures will become imperative direction for this segment.

Regarding fashion design business, the Group intends to draw the attention of those domestic high-end wedding and evening dress brand enterprises in Hong Kong to the Group's featured fashion products. As such, apart from conducting marketing and advertising activities, the Group has deliberately decided to build up brand recognition by emphasizing unique brand style of its featured tailor-made fashion products for strengthening market awareness of the Group's fashion products.

Mining Business

Application for the PRC approval of the Mine and the Group's application for licence to commence production are still in progress and the Group expects that the licence will be obtained in next year.

According to the report from the China Iron and Steel Association, despite the government's tightened property market control measures, enterprises in the construction and real estate sector still managed to secure steady development. Hence, The Group will keep abreast of changing market conditions and will adjust its business strategies to come up with any opportunity of mining business.

Money lending business

The market has become more aware of the Group's loan products and services and more customers have approached the Group for financing services.

The financing needs of SMEs create immense demand for the Group's service. As such, the Group is positive about the outlook of this business. The Group will continue to provide relevant financial solutions to those niche markets that remain cut off from bank financing. In future, the Group will keep looking for investment opportunities to further expand its service and will also focus on risk management. By balancing its risk exposure and allocating resources effectively, the Group is confident that this practice will enable it to be responsive to market change and needs and to enjoy revenue growth.

Technological Innovative Business

The Group has entered into the new business segment of technological innovative business through acquisition during the second half of 2012. The new business mainly involves trading of telecommunication and information technology products, especially focuses on interactive kiosks. Interactive kiosks are innovative systems and intelligent products which support retailers in enhancing customers' in-store shopping experience via provision of unique and tailor-made products to satisfy individual retailers' needs, hence boosting revenue of retailers. In the opinion of the Directors, there is huge market potential for business-to-business transactions as the interactive kiosks impress customers' in-store shopping experience. In addition, cross selling would be induced to the Group's other businesses such as fashion retail business of the Group by leveraging the technology of the new business. In 2013, the innovative business will start to make a full year contribution to the Group's operation.

Liquidity and financial resources

As at 30 June 2012, the Group had total assets of HK$1,747 million which were financed by total liabilities of HK$354 million and total equity of HK$1,393 million. Accordingly, the Group's ratio of debts to total assets and debts to equity are 20.3% (31 December 2011: 19.3%) and 25.4% (31 December 2011: 24.0%), respectively.

The Group generally financed its operation by internal cash resources, bank financing and several fund raising activities, including placing of new shares. As at 30 June 2012, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$23.7 million (of which about HK$6 million was pledged with banks for trade finance facilities for the Group) and unutilised banking facilities for a total amount of about HK$32.9 million.

Cash flow information

For the six months ended 30 June 2012, the Group recorded a net cash used in operating activities of approximately HK$24.0 million which comprised operating loss before working capital change of approximately HK$21.1 million and adjusted for net working capital outflow of approximately HK$3.0 million, mainly comprising an increase in inventories of approximately HK$1.2 million, increase in loan receivables of approximately HK$5.7 million and decrease in trade payables and other payables of approximately HK$0.7 million, which is offset with the decrease in trade receivable, other receivable, prepayments and deposits of approximately HK$4.6 million. The net cash used in operating activities decreased by approximately HK$9.9 million from approximately HK$33.9 million for the six months ended 30 June 2011. The decrease is attributable to the decrease in other payables and accruals compared to the six months ended 30 June 2011.

For the six months ended 30 June 2012, the Group recorded a net cash used in investing activities of approximately HK$2.6 million, primarily attributable to approximately HK$1.9 million of interest received, proceeds from disposal of equity investment at fair value through profit or loss of approximately HK$7.2 million, which is set off with the acquisition of property, plant and equipment and acquisition of equity investment at fair value through profit or loss of approximately HK$10.3 million. The net cash used in investing activities decreased slightly by approximately HK$0.4 million from approximately HK$3.0 million for the six months ended 30 June 2011.

For the six months ended 30 June 2012, the Group recorded a net cash generated from financing activities of approximately HK$8.3 million, primarily attributable proceeds generated from placing under general mandate of approximately HK$15.6 million, which is offset with approximately HK$7.3 million used in payment of interest of convertible bonds. The net cash generated from financing activities increased by approximately HK$53.0 million from net cash used in financing activities of approximately HK$44.7 million for the six months ended 30 June 2011. The increase is attributable to decrease in payment for redemption of convertible bond compared to the six months ended 30 June 2011.

Capital structure

Placing

The Directors stated that the garment business is facing a downturn due to the weak economic conditions in Europe and the United States. For the retail fashion and money lending business, it is still at beginning stage and cannot generate sufficient income to support the Group. Hence the Company required raising working capital by mean of placing.

On 7 March 2012, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 80,980,000 placing shares to not less than 6 independent placees at a price of HK$0.20 per placing share. The aggregate nominal value of the placing agreement will be approximately HK$16.2 million. The net proceeds from the placement of approximately HK$7.34 million was applied to pay the interest expenses of the convertible bonds and approximately HK$3.30 million was applied as general working capital of the Group and the remaining net proceeds amounted to approximately HK$4.97 million which will be used for general working capital of the Group.

Open offer

On 10 May 2012, the Company proposed to raise approximately HK$204 million, before expenses, by issuing 1,700,726,454 offer shares at the subscription price of HK$0.12 per offer share on the basis of seven offer shares for every two shares held by the qualifying shareholders on the 10 July 2012 and payable in full on acceptance. The company intends to apply such net proceeds from the open offer as to HK$100 million for the early redemption of the convertible bonds, approximately HK$40 million for cash settlement instead of issue of the promissory note in the same amount for the consideration in relation to the acquisition of m3 Development Technology Limited ("**m3 Technology**"), as to HK$20 million for the development of the money lending business, approximately HK$24 million for the working capital of the Group and as to HK$12 million for working capital of m3 Technology if and when the acquisition of m3 Technology completes.

Apart from the above, there was no change in the capital structure of the Company during the period under review.

Pledge of assets

As at 30 June 2012, the Group's bank deposits of approximately HK$6 million were pledged with banks for banking facilities of the Group.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and trading schemes

As at 30 June 2012, the Group employed about 28 employees including sales and merchandising, accounting and administrative staff in Hong Kong and the PRC. The total staff costs and directors' remuneration for the six months ended 30 June 2012 were HK$7.3 million. Employees are remunerated based on market and industry practice. The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

Significant investments, material acquisitions and disposals and future plans for material investments or capital assets

On 8 September 2011, the Company and its indirect wholly-owned subsidiary, Sky Treasure Worldwide Limited ("ST"), entered into a Supplemental Share Purchase Agreement with an independent third party (as the vendor) for the acquisition of the entire issued share capital of m3 Technology at a consideration of HK$398 million. m3 Technology is principally engaged in the supply of telecommunication and information technology services. The business overview for the technology industry has also been considered favorable. The Group viewed this as providing the opportunity for the Group to penetrate the technology industry and to diversify its existing business.

(b) Management discussion and analysis of the year ended 31 December 2011

Financial results

Year 2011 has been a tumultuous year for the global economy. The global recession slowed down and the world's financial markets are on the brink.

During the year under review, the Group has recognised a loss attributable to the owners of the Company of HK$198.7 million, as compared with a net loss of approximately HK$78.1 million in last year. The loss per share for the year ended 31 December 2011 was HK$0.83. Such increase in net loss was mainly due to a decrease in other income and decrease in turnover with the increase of distribution cost in garment sectors and the administrative expense of new established fashion design business and also the impairment of the exploration and evaluation assets.

The Group turnover was HK$25.7 million, representing a 87% decrease over the corresponding figure of HK$198 million in the last year. The decrease was mainly because the management adopted a prudent approach in accepting sale order/even stopped accepting sales order to take sounding under the continued surge in production cost and the change in the sales team during the year. These caused a drop in turnover and distribution cost.

Distribution costs included costs related to sales and marketing functions of the Group and were normally varied proportionally with the revenue. A drop in Group's revenue by 87% but an obviously drop in distribution costs by 86% was attributed to the Group's effective cost control measures. Administrative expenses generally included costs related to the supporting functions of the Group. During the year under review, the administrative expenses increased by 27% to approximately HK$34.7 million. Such significant increase was mainly attributable to the legal and professional fee incurred for the acquisition of the technology business and the increase in salaries.

In prior year, the Group issued convertible bonds in a principal amount of HK$1,680 millions as the consideration for the acquisition of an iron and titanium dioxide mine. In order to reduce the finance costs, the Company redeemed HK$320 million together with interest expenses of approximately HK$2.9 million during the year. In 2011, interest on convertible bonds decreased by approximately HK$17.3 million. Hence, there was a decrease of 25% in finance costs compared with the same period last year.

Other operating expenses decreased by 98% to HK$0.07 million for the year. Due to the gradual recovery of the economy and to better control the Group's exposure to credit risk and liquidity risk, the Group generally requested the customers to settle payment before delivery of goods and accepted orders from customers with good repayment record. Therefore, during the year under view, impairment of trade receivables decreased by HK$0.75 million to zero.

Furthermore, an impairment loss of approximately HK$160.8 million was recorded for the exploration and evaluation assets in relation to the Group's mining business since the approval procedure of licence were still in progress as at 31 December 2011. Please refer to the sub-heading "Mining business" under the paragraph headed "Review of operation" below for further details.

Review of operation

Sale of fabrics, garments and accessories

In the year under review were full of challenges both for the industry and the Group. The European debt crisis and slowing US economy continue to haunt business recovery. In addition, the market price of cotton has been a rollercoaster ride during last 12 months. The volatility of cotton market has made hard times harder for the industry, which has already been impacted by rising labor costs and the appreciation of the Renminbi ("RMB").

In respect of operation, the Group purchase cottons worldwide and delivered the cottons to Bangladesh for garment production. The garment will then be sold to United States. Therefore, it generally accepts sales order 2 months before the date of delivery. In view of continuously surge in production cost (cotton), the management prudently accepted sales order to take sounding and therefore caused a decrease in turnover. The decrease in turnover was also due to the change in the sale team during the year.

Mining business

In the previous year, the Group, through the newly acquired subsidiary, has obtained a mining licence (the "Mining Licence") expiring on 22 September 2014 for the Mine, an iron and titanium dioxide mine and has recognised as exploration and evaluation assets ("E & E Assets"). However, the Group has to obtain other licenses (the "Licenses") to commence/continue the operations on the Mine. In their previous mining plan (the "Mining Plan"), the Licenses will be obtained in year 2012 and the revenue will be generated at the end of year 2012.

As at 31 December 2011, the PRC approval of the Mine is still in progress. The Group has not yet commenced the commercial production during the year ended 31 December 2011 as an application is still in progress. The Directors are of the opinion that the Mining Plan will be delayed to year 2016, hence, the Licenses will be obtained in year 2013 and the revenue will be generated in year 2016. As advised by the PRC legal adviser of the Company in relation to the mining project, up to the Latest Practicable Date, there is no material legal impediment for the Group to extend the Mining Licence from the expiry date.

As at 31 December 2011, the Group has engaged a firm of professional independent valuers, Lofty Appraisal Limited, to determine the fair value of the E & E Assets based on the related discounted cash flow. Pursuant to their valuation report dated 30 March 2012, the fair value of the E & E Assets was approximately HK$1,539,000,000 as at 31 December 2011, representing a decrease of approximately HK$160,829,000 from the then carrying value of approximately HK$1,699,829,000. Accordingly, an impairment loss of approximately HK$160,829,000 on the E & E Assets was made by the Group during the year ended 31 December 2011. The deferred tax of approximately HK$40 million in relation to the provision of impairment loss on the E & E Assets was recognised.

The Group owns the mining rights with a total area of 7.89 square km. During the year under review, details of the resources and reserves are shown below:

Resources and reserves of the iron ("TFe") and titanium doxide ("TiO_2") mines under the JORC Code

(a) Resource summary (include reserves)

	Tonnage	**Grades**		**Contained metals**	
	(Mt)	TFe (%)	TiO_2 (%)	TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Measured and indicated	40.7	29.4	13.9	11,966	5,655
Inferred	18.2	29.9	13.6	5,442	2,475
Dazuomugou area					
Measured and indicated	9.9	29.5	13.0	2,920	1,287
Inferred	11.1	29.1	13.9	3,230	1,543

(b) Reserve summary

	Tonnage	Grades		Contained metals	
	(Mt)	TFe (%)	TiO_2 (%)	TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Proved	21.5	29.4	14.0	6,321	2,996
Probable	19.2	29.4	13.8	5,645	2,650
Dazuomugou area					
Proved	—	—	—	—	—
Probable	9.9	29.5	13.0	2,920	1,287

There has been no material change in the estimated reserves and resources of the Group's iron and titanium dioxide mines prepared by Lofty Appraisal Limited as of 31 December 2011, and the estimated iron and titanium dioxide reserves and resources as of 31 December 2011 are set out in the table above.

Fashion design

During the year, the Group carries out design and related services and sales of designer products.

Since the business was just started in late 2011, it recorded a loss of HK$5.5 million, which was mainly attributable to the administrative expenses.

Trading in securities

In order to have a better use of the Group's cash in hand, the Group started trading in securities in prior year. However, due to the economic recession in United States and Eurozone countries, the stock market in Hong Kong remained uncertain and fluctuated throughout the year. Hence, a loss on trading of securities of approximately HK$116,000 was recorded during the year.

Money lending business

On 23 August, 2011, the Group obtained the money lenders licence and also stepped into the money lending business.

The main objective of the money lending business is to use the Group's available fund to provide money lending services to potential clients to meet their financial needs and for the Group to generate reasonable interest income. The Group also adopted a prudent approach and a detailed approval process in accepting a potential client.

During the year under review, the money lending business recorded a profit of HK$0.75 million which represented interest income on loan receivables.

Prospect and Outlook

The Group expects that the year 2012 will still be a challenging year for textile industry. The American economy remained in a delicate state. What is more, the continuously high unemployment rate and declining home values have weighted down on consumer confidence. The US customers will remain cost conscious and keen to look for other regions with the lowest production costs. Accordingly, the Group anticipates that price competition for order from US customers will be fierce due to the aforesaid reasons. In addition, the Group will be facing an unprecedented challenge in the form of sever hikes in cotton prices, which constitutes a major component of its garment products. Although the challenges in the industry remain inevitably severe, the Group will concentrate its efforts on reinforcing its financial position to overcome the market volatility. To retain the comparative advantages in textile industry in 2012, the Group will continually stick to its profit-oriented strategy, deploy its financial resources only in high profit margin orders, be cautious in sourcing dyed fabrics from reliable fabric suppliers to maintain quality and volume, diversity the customer bases to minimize the downside exposure caused by the financial crisis.

In view of the global investment environment, there are a number of issues contributing to market volatility. Regulatory and fiscal reforms have hurt investor sentiment. The sovereign debt crisis and the ongoing search for a consensus solution have paralyzed the economic recovery in Europe, while engendering a crisis of confidence throughout most of the world. As a result, valuations have fallen in nearly every equity market, and risk – aversion levels have spiked. The financial markets are likely to be more volatile in the coming year. As such, the Group will selectively and prudently invest in the dynamic environment ahead.

With the product output continues to expand, China iron and titanium industry enjoys a rapid development, the national industrial policy encourages iron and titanium industry to develop towards the directions of hi-tech products, at the same time, domestic investment has gradually been increased. Earlier, the China Iron and Steel Association projected China's total crude steel demand for 2012 till grow 4 per cent to 700 million tones. The Group are proceeding to apply for various licences and permits for operating the mine. The Group considers that the prospect for the mining and sale of metal remains attractive in the year ahead.

The availability of credit in Hong Kong may be affected by the potential outflow of funds from Hong Kong and rising credit risk premium if the European sovereign debt problems remain unresolved. The Group expects that the money lending business will be beneficial from increased demand under a tightened financing environment. The slow economic recovery in the US and signs of slower economic growth in the PRC will cast uncertainty on the economy growth outlook of Hong Kong. The Group will continue to pursue long-term business growth with prudent capital and funding management in meeting the challenges ahead.

Liquidity and financial resources

At 31 December 2011, the Group had total assets of HK$1,768.8 million which were financed by total liabilities of HK$342.2 million and equity of HK$1,426.6 million. Accordingly, the Group's ratio of debts to total assets and debts to equity are 19.3% (2010: 30.9%) and 24.0% (2010: 44.7%), respectively.

The Group generally financed its operation by internal cash resources, bank financing and several fund raising activities, including placing of new shares and rights issue. At 31 December 2011, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$42 million (of which about HK$6 million was pledged with banks for trade finance facilities for the Group) and unutilised trade finance facilities for a total of about HK$47.7 million, which we consider sufficient for normal daily operation and expansion in 2012.

Cash flow information

For the year ended 31 December 2011, the Group recorded a net cash used in operating activities of approximately HK$64.5 million which comprised operating loss before working capital change of approximately HK$29.2 million and adjusted for net working capital outflow of approximately HK$35.2 million, mainly comprising an increase in trade and bills receivables, other receivables, prepayment and deposits of approximately HK$6.6 million, increase in loan receivables of approximately HK$21.0 million owing to the Group obtained the money licence on 23 August 2011 and stepped into the money lending business for the Group to generate reasonable interest income, decrease in trade payables of approximately HK$5.9 million and decrease in other payables and accruals of approximately HK$1.3 million. The net cash used in operating activities increased by approximately HK$38.1 million from approximately HK$26.4 million for the year ended 31 December 2010. The increase is attributable to the decrease in revenue from continuing operations over 2010 as a result of the management adopted a prudent approach in accepting sale order/even stopped accepting sales order to take sounding under the continued surge in production cost and the change in the sales term during the year.

For the year ended 31 December 2011, the Group recorded a net cash used in investing activities of approximately HK$111.0 million, primarily attributable to approximately HK$109.3 million of payment of acquisition of equity investment at fair value through profit or loss, approximately HK$80 million of deposit paid for the acquisition of a subsidiary and approximately HK$4 million of purchase of intangible asset, which is set off with proceeds from disposal of equity investment at fair value through profit or loss of approximately HK$89.2 million. The net cash used in investing activities increased by approximately HK$173.4 million from net cash generated from investing activities approximately HK$62.4 million for the year ended 31 December 2010. The increase is attributable to the deposit paid for the acquisition of a subsidiary.

For the year ended 31 December 2011, the Group recorded a net cash generated from financing activities of approximately HK$75.8 million, primarily attributable to approximately HK$373.9 million of proceeds generated from rights issue, approximately HK$36.9 million of proceeds generated from issues of shares, which is offset with approximately HK$320 million used in redemption of convertible bonds. The net cash from financial activities decreased by approximately HK$7.0 million from approximately HK$82.8 million for the year ended 31 December 2010. The decrease is attributable to decrease in proceeds from issues of shares compared to 2010.

Capital structure

On 24 January 2011, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 980,000,000 placing shares to not less than 6 independent placees at a price of HK$0.0245 per placing shares. The net proceeds from the placement of approximately HK$23 million will be used for general working capital of the Group.

Pursuant to an ordinary resolution passed on 7 March 2011, every 20 issued and unissued shares of HK$0.001 each in the share capital of the Company were consolidated into 1 consolidated share of HK$0.02 each.

On 22 March 2011, the Company entered into another placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a fully underwritten basis, a total of 58,000,000 placing shares to not less than 6 independent placees at a price of HK$0.25 per placing share. The net proceeds from the placement of approximately HK$13.9 million will be used for general working capital of the Group.

On 25 July 2011, the Company issued 77,446,713,546 shares by rights issue in the proportion of twenty two rights shares for every one existing share held on 28 June 2011, at a subscription price of HK$0.05 per rights share.

On 7 October 2011, every twenty issued and unissued shares of HK$0.02 each be consolidated into 1 consolidated share of HK$0.40 each and reduce the par value of each consolidated share from HK$0.40 to HK$0.001 each by cancelling the paid-up capital to the extent of HK$0.399 on each consolidated share.

On 7 March 2012, the Company has entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place through the placing agent. On a fully under untitled basis, a total of 80,980,000 placing shares to not less than six placees at a price of HK$0.20 per placing share. The placing of new shares, with net proceeds of approximately HK$16 million, was completed on 20 March 2012.

On 10 May 2012, the Company proposed to issue 1,700,726,454 shares by open offer on the basis of seven offer shares for every two existing shares held on the record date at a subscription price of HK$0.12 per offer share. The estimated gross proceeds and estimated net proceeds from the open offer will be approximately HK$204 million and HK$196 million respectively.

Apart from the above, there was no change in the capital structure of the Company during the year under review and up to the date of this report.

Pledge of assets

At 31 December 2011, the Group's bank deposits of approximately HK$6 million were pledged with banks for trade finance facilities of the Group.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and trading schemes

At 31 December 2011, the Group employed about 34 employees including sales and merchandising, accounting and administrative staff in Hong Kong and the PRC. The total staff costs and directors' remuneration for the year were approximately HK$14.5 million. Employees are remunerated based on market and industry practice. The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

Significant investments, material acquisitions and disposals and future plans for material investments or capital assets

On 8 September 2011, the Company and its indirect wholly-owned subsidiary, Sky Treasure Worldwide Limited ("ST"), entered into a Supplemental Share Purchase Agreement with an independent third party (as the vendor) for the acquisition of the entire issued share capital of m3 Technology Development Limited (the "Target Company") at a consideration of HK$398 million. The Target Company is principally engaged in the supply of telecommunication and information technology services. The business overview for the technology industry has also been considered favorable. The Group viewed this as providing the opportunity for the Group to penetrate the technology industry and to diversify its existing business.

(c) Management discussion and analysis of the year ended 31 December 2010

Financial results

In 2010, although the global recession slowed down and the economy started to show some signs of recovery, the global economic condition remained uncertain. During the year under review, the Group has recognised a loss attributable to the owners of the Company of HK$78.1 million, as compared with a net loss of approximately HK$13.1 million in last year. The loss per share for the year ended 31 December 2010 was HK$3.85. Such increase in net loss was mainly due to the imputed interest cost of the convertible bonds issued by the Company during the year under review. Despite the total number of the Company's issued ordinary shares would have been 245,123,000 (after adjusting for the 20 to 1 share consolidation after the 31 December 2010), the weighted average number of ordinary shares in issue for the purpose of calculating the basic loss per share is approximately 20,262,000. This is mainly due to the fact that the eight-for-one rights issue was only effective from 21 December 2010 and only 11 days effect was taken into account in the above calculation. If the rights issue is assumed to have been effective from 1 January 2010, the weighted average number of ordinary shares in issue for the purpose of calculating the basic loss per share would have been significantly increased and, accordingly, the basic loss per share would have been significantly reduced.

Affected by the misty global economic environment, revenue from continuing operations decreased by approximately HK$22.3 million over last year to approximately HK$198.1 million. The decrease was due to the drop in revenue contributed from the businesses in the United States, as the consumer sentiment index in the United states remained weak. As a result of the continuously upsurge on cost of cotton and keen competition in the textile industry in the PRC, the Group's gross profit margin decreased from 11.8% to 8.8%. The gross profit for the year also decreased by 33.1% to approximately HK$17.5 million.

Despite the drop in the Group's revenue, distribution costs included costs related to sales and marketing functions of the Group increased slightly by 5.3% to HK$12.8 million. This was mainly due to the increased marketing activities of the garments trading in Europe as a result of the Group's continuously exploring potential growth in garments trading and diversifying the customer bases of textile industry in other areas.

Administrative expenses generally included costs related to the supporting functions of the Group. During the year under review, the administrative expenses from continuing operations increased by 65.7% to approximately HK$26.4 million. Such significant increase was mainly attributable to the legal and professional fee incurred for the acquisition of the mining business and the disposal of subsidiaries of the Group.

Other operating expenses from continuing operations decreased by 4.1% to HK$4.7 million for the year. Due to the gradual recovery of the economy and to better control the Group's exposure to credit risk and liquidity risk, the Group generally requested the customers to settle payment before delivery of goods and accepted orders from customers with good repayment record. Therefore, during the year under view, impairment of trade receivables decreased by HK$0.2 million to HK$0.27 million. Debtors turnover day was significantly shortened to 15 days. The Group generated a significant increase in cash and cash equivalents of about HK$109.2 million and, as stated in the consolidated statement of financial position, maintained a cash and cash equivalents of approximately HK$136.8 million as at 31 December 2010.

On 30 March 2010, the Group acquired an iron and titanium dioxide mine, at a consideration of HK$1,680 million, through the acquisition of a mining company in order to broaden the income base of the Group and diversify its business into the non-ferrous industry. The mining company held a mining license under which the company has the right to conduct mining and exploitation works in a mine located at Ziyang County, Shaanxi Province, the PRC.

The Group has intended to dispose of the fabric processing operation in Zhongshan, the PRC, for several years given that it was unable to reap as substantial a profit to the Group as other subsidiaries. Furthermore, in order to segregate the Group's lines of businesses clearly and to reallocate the Group's resources into the new business venture, i.e. exploitation of mineral resources, and the sale of fabrics and garments, the Group considered disposing of the subsidiaries that are unable to reap as substantial a profit to the Group. On 2 September 2010, the Group has entered into a sale and purchase agreement to dispose of several subsidiaries which were mainly engaged in the sale of fabrics at a consideration of HK$45.8 million. Such disposal was completed on 29 October 2010.

Review of operation

Sale of fabrics, garments and accessories

Revenue generated from sale of fabrics, garments and accessories decreased by HK$22.7 million to HK$197.6 million. The decrease was mainly due to the drop in revenue contributed from garment trading in the United States. Although the global recession was slow down in 2010 and the United States was on the way to recovery, the consumer sentiment index in the United States remained weak. Furthermore, the Group's garment customers generally adopted a "wait and see attitude", held inventories at a lower level and placed garment order just before the inventories consumed. To minimize the distress caused by the decrease in revenue in the United States, the Group started to explore the market of fabrics, garments and accessories in other areas, such as Europe in order to maintain the profitability of this segment in long-term.

Trading in securities

To make the best use of the Group's cash in hand, the Group started trading in securities from the fourth quarter of 2010. By maximizing the aggregate annual return, the Group mainly invested in the listed companies in Hong Kong. Besides, other investment vehicles e.g. banknotes, convertible bonds, debentures and etc., will also be considered. During the year under review, we recorded about HK$0.47 million of revenue.

Iron & titanium mining

To broaden our sources of earnings, the Group acquired an iron and titanium dioxide mining company in China on 30 March 2010. The mining company holds a mining license with which the company has the right to conduct mining and exploitation works in a mine located at Ziyang County, Shaanxi Province, the PRC. Exploration on the mine was completed. Restructure of the management committee was accomplished. During the year under review, the mining business recorded a loss of HK$1.5 million which was mainly attributable to the administrative expenses.

The Group owns the mining rights with a total area of 7.89 square km. During the period under review, details of the resources and reserves are shown below:

Resources and reserves of the iron ("TFe") and titanium doxide ("TiO_2") mines under the JORC Code

(a) Resource summary (include reserves)

	Tonnage	Grades		Contained metals	
	(Mt)	TFe (%)	TiO_2 (%)	TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Measured and indicated	40.7	29.4	13.9	11,966	5,657
Inferred	18.2	29.9	13.6	5,442	2,475
Dazuomugou area					
Measured and indicated	9.9	29.5	13.0	2,920	1,287
Inferred	11.1	29.1	13.9	3,230	1,543

(b) Reserve summary

	Tonnage	Grades		Contained metals	
	(Mt)	TFe (%)	TiO_2 (%)	TFe (Kt)	TiO_2 (Kt)
Taoyuan area					
Proved	21.5	29.4	14.0	6,321	3,010
Probable	19.2	29.4	13.8	5,645	2,650
Dazuomugou area					
Proved	—	—	—	—	—
Probable	9.9	29.5	13.0	2,920	1,287

Discontinued operation

On 4 August 2008, the Group discontinued the fabric processing business in Zhongshan, the PRC and accordingly, the fabric processing operation was reclassified as a discontinued operation and all plant and machineries of the fabric processing operation was classified as assets classified as held for sale. On 29 October 2010, the Group has disposed of such fabric processing business in Zhongshan together with several subsidiaries which were principally engaged in the business of sale of fabrics and/or garments in the PRC and in Hong Kong at a consideration of HK$45.8 million.

Prospect and outlook

The Group expects the operating environments of trading of fabrics, garments and accessories to remain challenging in 2011. Since the second half of 2010, the price of all kinds of textile raw materials, e.g. cotton, increased significantly and impaired the profitability of the textile industry in Hong Kong and the PRC. Although the challenges in the industry remain inevitably severe, the Group will concentrate its efforts on reinforcing its financial position to overcome the market volatility. To retain the comparative advantages in textile industry in 2011, the Group will continually stick to its profit-oriented strategy, deploy its financial resources only in high profit margin orders, be cautious in sourcing dyed fabrics from reliable fabric suppliers to maintain quality and volume, diversity the customer bases to minimize the downside exposure caused by the financial crisis.

In view of the global investment environment, there are a number of swing factors in 2011. The Group sees that the financial crisis in the euro area, the misty US economic conditions as well as the bottoming interest rates cycles in various countries and regions are the key ones. The financial markets are likely to be more volatile in the coming year. As such, the Group will selectively and prudently invests in the dynamic environment ahead. Owing to the fast economic growth in the PRC, there is a huge demand for iron and titanium. Over 98% of iron ore is applied to the steel industry. With the rise in freight charges and uncontrollable imported iron ore pricing, local iron ore is preferable by the steel industry in China. Titanium is also in great demand and has a wide variety of applications such as aerospace, sport equipment, cosmetics, etc. to capitalize on these growing opportunities, the Group are proceeding to apply for various licenses and permits for operating the mine. The Group considers that the prospect for the mining and sale of the metals remains attractive in the years ahead.

Liquidity and financial resources

At 31 December 2010, the Group had total assets of HK$1,844.9 million which were financed by total liabilities of HK$570.4 million and equity of HK$1,274.6 million. Accordingly, the Group's ratio of debts to total assets and debts to equity are 30.9% (2009: 59.3%) and 44.7% (2009: 145.9%), respectively. The Group generally financed its operation by internal cash resources, bank financing and several fund raising activities, including placing of new shares and rights issue. At 31 December 2010, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$138.7 million (of which about HK$1.9 million was pledged with banks for banking facilities for the Group) and unutilised banking facilities for a total of about HK$83.5 million, which we consider sufficient for normal daily operation and expansion in 2011.

Cash flow information

For the year ended 31 December 2010, the Group recorded a net cash used in operating activities of approximately HK$26.4 million which comprised operating loss before working capital change of approximately HK$19.8 million and adjusted for net working capital outflow of approximately HK$4.9 million, mainly comprising a decrease in trade and bills receivables, other receivable, prepayment and deposits of approximately HK$3.2 million and offset by the decrease in trade and bills payable, other payables and accruals of approximately HK$2.3 million and the increase in equity investment at fair value through profit or loss of approximately HK$4.9 million in relation to trading of securities by the Group in the fourth quarter of 2010 for better utilization of the Group's cash in hand. The net cash used in operating activities increased by approximately HK$31.7 million from net cash generated from operating activities of approximately HK$5.2 million for the year ended 31 December 2009. The increase is attributable to the decrease in revenue from continuing operations over 2009 as a result of the drop in revenue contributed from business in the United States and the legal and professional fee incurred for the acquisition of the mining business and the disposal of subsidiaries and commission paid.

For the year ended 31 December 2010, the Group recorded a net cash generated from investing activities of approximately HK$62.4 million, primarily attributable to approximately HK$14.7 million of proceeds generated from disposal of investment property in Zhongshan for improving cash position of the Group, and approximately HK$45.0 million of proceeds generated from disposal of subsidiaries which related to the disposal of the fabric processing business in Zhongshan which has been discontinued since 2008 together with several subsidiaries which were principally engaged in the business of sale of fabrics and/or garments in the PRC and in Hong Kong. The net cash from investing activities increased by approximately 15.4 times from approximately HK$3.8 million for the year ended 31 December 2009. The increase is attributable to proceeds generated from disposal of investment properties and subsidiaries.

For the year ended 31 December 2010, the Group recorded a net cash generated from financing activities of approximately HK$82.8 million, primarily attributable to approximately HK$217.9 million of proceeds generated from rights issue, approximately HK$45.5 million of proceeds generated from issues of shares, which is offset with approximately HK$170.0 million used in redemption of convertible bonds and approximately HK$14.6 million used for repayment of bank loans. The net cash from investing activities increased by approximately 16.3 times from approximately HK$4.8 million for the year ended 31 December 2009. The increase is attributable to proceeds from issues of shares and right issue.

Capital structure

(I) Pursuant to the ordinary resolution passed on 17 March 2010, the authorised share capital of the Company had been increased from HK$250,000,000 to HK$1,500,000,000 by the creation of an additional 25,000,000,000 shares of HK$0.05 each ranking pari passu in all respects with the existing shares of the Company.

In early November 2009, the Group entered into a sale and purchase agreement to acquire an iron and titanium dioxide mine in the PRC. The deal was completed on 30 March 2010. On completion, the Group issued convertible bonds (the "Convertible Bonds") in a principal amount of HK$1,680 million as consideration. The Convertible Bonds bear interest at 2% per annum with a maturity date on 29 March 2013. The convertible bonds holder(s) of the Convertible Bonds have the right to convert on or after 30 March 2010 up to and including 29 March 2013, into ordinary share of the Company at an initial conversion price of HK$0.22 per share, subject or adjustment for general dilutive events.

During the year ended 31 December 2010, total principal of HK$823,200,000 were converted into 850,000,000 and 14,459,090,908 new ordinary shares of the Company at HK$0.22 and HK$0.044 each, respectively. The Company has early redeemed part of the Convertible Bonds of HK$170 million before the maturity date. The outstanding principal amounts of the Convertible Bonds as at 31 December 2010 was HK$686,800,000.

(II) During the year ended 31 December 2010, the issued share capital of the Company had the following changes:

Issue of shares upon conversion of convertible bonds:

(a) The Company issued 850,000,000 shares to convertible bond holder(s) for the conversion of HK$187 million convertible bonds at a conversion price of HK$0.22 per share.

(b) The Company issued 14,459,090,908 shares to convertible bond holder(s) for the conversion of HK$636.2 million convertible bonds at an adjusted conversion price of HK$0.044 per share.

Share subdivision:

On 4 May 2010, the Company subdivided each issue and unissued share of HK$0.05 each of the Company into 5 subdivided shares of HK$0.01 each. Therefore, the authorized share capital of the Company was HK$1,500,000,000 divided into 150,000,000,000 subdivided shares.

Issue of shares upon exercise of share options:

On 14 May 2010, the Company issued 8,000,000 shares to a share option holder at an adjusted exercise price of HK$0.014 per share. The Company received proceeds of approximately HK$0.11 million.

Issue of shares through placement:

(a) On 16 August 2010, the Company issued 2,057,767,649 shares of HK$0.01 each at the placing price of HK$0.01 each.

(b) On 12 October 2010, the Company issued 90,786,423 shares of HK$0.001 each at the placing price of HK$0.275 each.

Share consolidation:

On 2 September 2010, every fifty issued and unissued shares of HK$0.01 each were consolidated into one consolidated share of HK$0.5 each. The paid up capital was cancelled to an extent of HK$0.499 on each consolidated share from HK$0.5 to HK$0.001.

Issue of rights issue:

On 21 December 2010, the Company issued 4,357,748,320 shares by rights issue in the proportion of eight rights shares for every one existing share held on 26 November 2010, at a subscription price of HK$0.05 per rights share.

Pledge of assets

At 31 December 2010, the Group's bank deposits of approximately HK$1.9 million were pledged with banks for banking facilities of the Group.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and trading schemes

At 31 December 2010, the Group employed about 26 employees including sales and merchandising, accounting and administrative staff in Hong Kong, China and Bangladesh. The total staff costs and directors' remuneration for the year were approximately HK$18.7 million. Employees are remunerated based on market and industry practice. The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

Significant investments, material acquisitions and disposals and future plans for material investments or capital assets

On 30 March 2010, the Group acquired a mining company in order to broaden the income base of the Group and diversify its business into the non-ferrous industry. Upon completion, the Group issued convertible bonds in a principal amount of HK$1,680 million as consideration. The mining company held a mining license under which the company has the right to conduct mining and exploitation works in a mine located at Ziyang county, Shaanxi Province, the PRC. Exploration on the mine was completed. The management of the Group will closely monitor the progress and execution of the capital injection plans which may be updated from time to time with reference to the business environment and the development of the mining businesses as well as the availability of the Group's financial resources at the time.

On 4 August 2008, the Group discontinued the fabric processing operation in Zhongshan, the PRC, and maintained its plant and machineries in the dyeing factory in workable conditions and classified as assets classified as held for sale. On 2 September 2010, the Group has entered into a sale and purchase agreement with Cotton Row Limited to dispose of the fabric processing operation in Zhongshan together with several subsidiaries which were principally engaged in the business of sale of fabrics and/or garments in the PRC and in Hong Kong. Such disposal was completed on 29 October 2010. The disposed subsidiaries were disposed at a premium of HK$4 million. Due to the release of the exchange reserve of the disposal group of HK$13.6 million, the Group has recognised a total gain of disposal of HK$17.7 million.

(d) Management discussion and analysis of the year ended 31 December 2009

Financial results

In 2009, the adverse impacts of global financial crisis continued to spread and impair the world economy. In response to the unfavorable market conditions, the Group effectively overcame operating pressures by closing the dyeing factory in the PRC during the second half of 2008 and protected the Group against market turbulence. During the year under review, the Group strived to reduce the loss attributable to the owners of the Company by HK$31.1 million to HK$13.1 million, as compared with a net loss of approximately HK$44.2 million last year. The loss per share was significant decreased by 70.3% to 3.41 cents.

Affected by the global financial crisis, revenue from continuing operations decreased by approximately HK$66.7 million over last year to approximately HK$220.3 million. The decrease was due to the drop in revenue contributed from the businesses in the PRC, after the closing down of dyeing factory, and from the United States, the origin of the global financial crisis. However, as a result of the restructuring of business, the gross profit margin from continuing operations increased to 11.8% during such economic hard-time, as compared with approximately 7.7% of last year. The gross profit for the year also increased by 17.4% to approximately HK$26.1 million.

Distribution costs included costs related to sales and marketing functions of the Group and were normally varied proportionally with the revenue. A drop in Group's revenue from continuing operations by 23.2% but an obviously drop in distribution costs from continuing operations by 28.1% was attributed to the Group's effective cost control measures. Administrative expenses generally included costs related to the supporting functions of the Group. During the year under review, the administrative expenses from continuing operations also decreased by 11.8% to approximately HK$15.9 million.

Other operating expenses from continuing operations significantly decreased by 36.7% to HK$4.9 million for the year because the expenses for 2008 was mainly composed of a write-off of deposit paid on a terminated investment project of HK$2.7 million. On the other hand, the Group foresaw that the default on payment of trade receivable would likely increase during the economic recession. To minimise the exposure to credit risk and liquidity risk, the Group generally requested the customers to settle payment before delivery of goods and accepted orders from customers with good repayment record. Therefore, during the year under view, the debtors turnover day was shorten to 39 days and impairment of trade and bills receivable from continuing operations was reduced by 75.4% to HK$0.47 million. Furthermore, the Group generated an increase in cash and cash equivalents of about HK$8.9 million and, as stated in the consolidated statement of financial position, maintained a cash and cash equivalents of approximately HK$27.5 million at 31 December 2009.

The Group promised to pursue its existing businesses and at the same time, actively pursue other opportunistic investments in the PRC. During 2009, the Group identified an iron and titanium dioxide mine located at Ziyang County, Shaanxi Province, the PRC as having abundant potential, given the quantity of the mineral resources in the mine and the favorable reports complied by different professional parties. The business overview for the metal industry has also been considered favorable. Additionally, despite the global financial tsunami in 2008, the PRC Government has taken a series of revitalization measures to stimulate the steel industry in the PRC.

The Group viewed this as providing the opportunity for the Group to penetrate the non-ferrous industry and to diversify its existing business. Therefore, in early November 2009, the Group entered into a sale and purchase agreement to acquire the iron and titanium dioxide mine at a consideration of HK$1,680 million. The deal was already secured support of the Group's shareholders at the special general meeting held on 17 March 2010 and was completed on 30 March 2010. During the completion, the Group issued convertible bonds in a principal amount of HK$1,680 million as consideration.

Review of operation

The Group was engaged in the sale of fabrics and the sale of garment and accessories during the year under review.

Continuing Operations

Sale of Fabrics

Revenue generated from sale of fabrics decreased by HK$7.2 million to approximately HK$60.8 million. The decrease was mainly due to the drop in revenue contributed from fabric trading in the PRC. Since the closure of Group's dyeing factory in the PRC in the second half of 2008, the Group conserved its resources and downsized the domestic sales teams in the PRC to avoid cut-throat price competitions under tough trading environment. Furthermore, during the year, the Group only accepted sales orders from customer with good repayment record to minimize the risk of order cancellation and quality rejection.

However, on the other hand, the tough environment also provided opportunities to the Group. The decrease in export of textile products in the PRC directly impact upon the business of PRC fabric supplying factories and therefore the bargaining power of the Group increased. Also, the flexibility on sourcing different fabric suppliers worldwide after the closure of the Group's factory strengthened the Group's capability to source textile products at the best price. After years of effort, the Group already established a close network of production bases in northern region of the PRC which could offer fabrics with industrially recognized quality and at low prices. As the sum of these positive impacts, the Group's segment loss on sale of fabrics decreased significantly by 83.7% to HK$4.2 million during the year.

In view of a promising segment result on sale of fabrics, the Group would continue to form strategic alliance with sales persons with high marketing caliber to enhance our market positions and evaluate the performance of these alliances in a cautious manner.

Sale of Garments and Accessories

The Group's primary market of garments trading was the United States and the revenue generated from the United States representing approximately 70.3% of the total revenue of the Group. Following the outbreak of sub-prime mortgage crises and the bankruptcy of Lehman Brothers, the United States experienced a once-in-a-century recession and the consumer sentiment index remained weak. Under the unprecedented market conditions, the Group's customers generally adopted a "wait and see attitude", held inventories at a lower level and placed garments order just before the inventories consumed. Therefore, revenue generated from sales of garments and other related accessories showed an obvious decrease by 27.1% to HK$159.5 million as compared with last year and the segment profit decreased to approximately HK$6.1 million.

Operationally, the Group acquired garments from suppliers situated in South-Asian countries, such as Bangladesh. The countries over there could provide abundant labor force with low cost of production. The Group then exported garments to certain major retailers, importers and department stores in the United States. The exchange risk was considered to be minimal to the Group because all receivable and payable were settled in the United States dollars. Although the segment still contributed an encouraging result to the Group during the year, to keep a steady pace of development of this segment in long-term, the Group started to explore the market of garments trading in other areas, such as Europe, and diversified the customers bases in the sale of garments and accessories to minimize the distress caused by the financial crisis.

Discontinued Operation

On 4 August 2008, the Group discontinued the fabric processing business in Zhongshan, the PRC and accordingly, the fabric processing operation was reclassified as a discontinued operation. At 31 December 2009 and 2008, all plant and machineries of the fabric processing operation was classified as assets classified as held for sale and valued by independent qualified valuers. The loss for the year from the discontinued operation of HK$4.1 million was the impairment loss of assets classified as held for sale.

Prospect and outlook

In 2009, after the PRC government introduced policy to strengthen the textile industry and stimulate the domestic demand, the price of all kinds of textile raw materials rose continuously. Therefore, the Group expected that year 2010 still be a challenging year for textile industry. Although the challenges in the industry remain inevitably severe, the Group will concentrate its efforts on reinforcing its financial position to overcome the market volatility, stick to its profit-oriented strategy and pursue a turnaround result in this business. To retain the comparative advantages in textile industry in 2010, the Group will continue forming strategic alliance with sales persons with high marketing caliber to enhance our market position, deploy its financial resources only in high profit margin orders, be cautious in sourcing dyed fabrics from reliable fabric suppliers to maintain quality and volume, diversify the customer bases to minimize the downside exposure caused by the financial crisis and streamline the workforce to enhance efficiency of each operation of the Group.

Furthermore, the Group considered that the prospects of the non-ferrous industry is promising. Recently, the PRC government has decisively promulgated a series of economic stimulus measures and reinstated non-ferrous industry. Various measures have been put in place to stimulate domestic demand and stabilize market conditions. All these measures would likely have a positive impact on the non-ferrous industry in the PRC.

After the commencement of exploitation activities, it will broaden the Group's income base and improve its financial performance in the foreseeable future.

Liquidity and financial resources

At 31 December 2009, the Group had total assets of HK$132.6 million which were financed by total liabilities of HK$78.7 million and equity of HK$53.9 million. Accordingly, the Group's ratio of debts to total assets and debts to equity are 59.3% (2008: 56.8%) and 145.9% (2008: 131%), respectively.

The Group generally financed its operation by internal cash resources and bank financing. At 31 December 2009, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$43.4 million (of which about HK$15.9 million was pledged with banks for banking facilities for the Group) and unutilised banking facilities for a total of about HK$103.2 million, which we consider sufficient for normal daily operation and expansion in 2010.

Cash flow information

For the year ended 31 December 2009, the Group recorded a net cash generated from operating activities of approximately HK$5.2 million, which comprised operating loss before working capital change of approximately HK$4.0 million and adjusted for net working capital inflow of approximately HK$11.7 million. The net working capital inflow was a result of decrease in trade and bills receivables, other receivable, prepayment and deposits of approximately HK$17.9 million and partially offset by approximately HK$6.3 million from the decrease in trade and bills payable, other payables and accruals. The net cash generated from operating activities increased by approximately HK$17.1 million from net cash used in operating activities of approximately HK$11.9 million for the year ended 31 December 2008. The increase is attributable to the result of restructuring of business, the Group effectively overcame operating pressures by closing the dyeing factory in the PRC during the second half of 2008 and protected the Group against market turbulence, the gross profit margin from continuing operation increased to approximately 11.8% during such economic hard-time, as compared with approximately 7.7% of last year.

For the year ended 31 December 2009, the Group recorded a net cash generated from investing activities of approximately HK$3.8 million, primarily attributable to decrease in pledged bank deposits of approximately HK$3.7 million. The net cash generated from investing activities increased by approximately HK$6.5 million from net cash used in investing activities of approximately HK$2.6 million for the year ended 31 December 2008. The increase is attributable to the Group decrease in pledged bank deposits and decrease in purchase of items of property, plant and equipment compared to 2008.

For the year ended 31 December 2009, the Group recorded a net cash generated from financing activities of approximately HK$4.8 million arising from proceeds from new bank borrowings and the increase in amounts due to directors. The net cash generated from financing activities increased by approximately HK$16.8 million from net cash used in financing activities of approximately HK$12.1 million for the year ended 31 December 2008. The increase is attributable to proceeds from new bank borrowings and decrease in repayment of bank borrowings.

Capital structure

There has been no material change in the capital structure of the Group since 31 December 2008.

Pledge of assets

At 31 December 2009, the Group's bank deposits of about HK$15.9 million was pledged with banks for banking facilities of the Group.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and trading schemes

At 31 December 2009, the Group employed about 86 employees including sales and merchandising, accounting and administrative staff in Hong Kong, China and Bangladesh. The total staff costs and directors' remuneration for the year were approximately HK$18.6 million. Employees are remunerated based on market and industry practice. The remuneration policy and package of the Group's employees are regularly reviewed by the Board. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

Significant investments, material acquisitions and disposals and future plans for material investments or capital assets

In the second half of 2008, the Group discontinued the fabric processing operation and maintained its plant and machineries in the dyeing factory in workable conditions and classified as assets classified as held for sale. At 31 December 2009, the assets classified as held for sale and factory buildings were valued at HK$11.4 million and HK$50 million, respectively. The Group continuously took steps to sell those plant and machineries to interested buyers. The factory buildings comprise a site with an area of approximately 65,333 square metres and the Group would lease or sell out to interested parties.

In early of November 2009, the Group entered a sale and purchase agreement to acquire an iron and titanium dioxide mine in the PRC. The deal was completed on 30 March 2010. During the completion, the Group issued convertible bonds in a principal amount of HK$1,680 million as consideration. The Group will penetrate the non-ferrous industry and diversify its existing business in 2010, with the aim of broadening the income base of the Group. The total capital injection plans for the mine is amount to about RMB400 million. The management of the Group will closely monitor the progress and execution of the capital injection plans which may be updated from to time with reference to the business environment and the development of the mining businesses as well as the availability of the Group's financial resources at the time.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ascenda Cachet CPA Limited, in respect of the accountants' report on Chang Ye Holdings Limited (the "Target Company") and its subsidiaries (collectively, the "Target Group") as set out in this appendix.

13F, Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong
香港灣仔告士打道128號祥豐大廈13F座

Ascenda CACHET
天健德揚

14 December 2012

The Board of Directors
Bao Yuan Holdings Limited

Dear Sirs,

We set out below our report on the financial information of Chang Ye Holdings Limited (the "Target Company") and its subsidiaries, China Household Furniture Holdings Limited (Formerly "Realty Bright Worldwide Limited") ("China Household Furniture") and Zhongshan City Prado Style Household Company Limited (中山市普納度風尚家居有限公司) (Formerly "Oasis Home Furnishings (Zhongshan City) Company Limited") ("Zhongshan Prado") (collectively, the "Target Group") for inclusion in a circular (the "Circular") dated 14 December 2012 issued by Bao Yuan Holdings Limited in connection with the proposed acquisition (the "Acquisition") of (i) the 100% equity interest in the Target Group (the "Sale Shares") and (ii) the shareholder's loan owed by the Target Group (the "Sale Loan"). Pursuant to the terms and conditions set out in the conditional sale and purchase agreement dated 18 October 2012 entered into between Legend Whistler Limited, an indirect wholly-owned subsidiary of the Company (the "Purchaser"), and Jolly Treasure Developments Limited (the "Vendor") relating to the sale and purchase of the Sale Shares. The financial information comprises the company and combined statements of financial position of the Target Group as at 31 December 2010 and 2011 and 31 August 2012, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Target Group for the period from 26 August 2010 (date of incorporation) to 31 December 2010, year ended 31 December 2011 and period from 1 January 2012 to 31 August 2012 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), together with the unaudited financial information of the Target Group including the combined statement of comprehensive income, the combined statement of cash flows and the combined statement of changes in equity for the eight months ended 31 August 2011 (the "31 August 2011 Corresponding Information").

The Acquisition constitutes a very substantial acquisition of the Company under the Rules (the "Listing Rules") Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and is subject to the approval by the shareholders of the Company at a special general meeting of the Company to be convened and held.

The Target Company was incorporated in the British Virgin Islands (the "BVI") with limited liability on 10 August 2012. The principal activity of the Target Company is investment holding, it holds 100% equity interest in China Household Furniture.

As at the date of this report, no statutory audited financial statements have been prepared by the Target Company since its incorporation.

China Household Furniture was incorporated in Hong Kong with limited liability on 26 August 2010. The principal activity of China Household Furniture is investment holding during the Relevant Period, and its subsidiary was principally engaged in trading of furniture and provision of interior design services. Pursuant to a special resolution passed on 20 June 2011, the name of the China Household Furniture was changed from "Realty Bright Worldwide Limited" to "China Household Furniture Holdings Limited".

China Household Furniture has its statutory financial statements prepared in accordance with the accounting principles and regulations applicable to the companies incorporated in Hong Kong. These statutory financial statements were audited by Messrs. Sammy Lau CPA Limited in Hong Kong for the period from 26 August 2010 (date of incorporation) to 31 December 2010 and for the year ended 31 December 2011. As at the date of this report, no audited combined financial statements have been prepared by China Household Furniture since its incorporation.

Zhongshan Prado was established in the People's Republic of China (the "PRC") with limited liability on 30 September 2011. The principal activity of Zhongshan Prado is trading of furniture and provision of interior design services in Zhong Shan during the Relevant Period. On the 8 May 2012, the name of the subsidiary was changed from "Oasis Home Furnishings (Zhongshan City) Company Limited" "中山市綠洲家居有限公司" to "Zhongshan City Prado Style Household Company Limited" "中山市普納度風尚家居有限公司".

Zhongshan Prado has its statutory financial statements prepared in accordance with the accounting principles and regulations applicable to enterprises established in the PRC. These statutory financial statements were audited by 中山市中正聯合會計師事務所有限公司 in the PRC for the period from 30 September 2011 (date of establishment) to 31 December 2011.

For the purpose of this report, the sole director of the Target Group prepared the financial statements of the Target Group for the Relevant Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include all Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information and the 31 August 2011 Corresponding Information of the Target Group as set out in this report have been prepared by the sole director of the Target Group based on the Underlying Financial Statements, after making such adjustments where appropriate. The sole director of the Target Group is responsible for the preparation and the true and fair presentation of the Financial Information and 31 August 2011 Corresponding Information of the Target Group, which gives a true and fair view. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information and the 31 August 2011 Corresponding Information of the Target Group that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In preparing the Financial Information and the 31 August 2011 Corresponding Information of the Target Group which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

The sole director of the Target Company is also responsible for the Financial Information and the 31 August 2011 Corresponding Information presented in this report and the contents of the Circular in which this report is included.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information of the Target Group and to report our opinion to you.

For the 31 August 2011 Corresponding Information, our responsibility is to express a conclusion on the financial information based on our review and to report our conclusion to you.

PROCEDURES PERFORMED IN RESPECT OF THE RELEVANT PERIOD

For the purpose of this report, we have carried out an independent audit on the Financial Information of the Target Group for the Relevant Period in accordance with the Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and Reporting Accountant" issued by HKICPA.

We conducted our review of the 31 August 2011 Corresponding Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by HKICPA. A review of the financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express audit opinion on the 31 August 2011 Corresponding Information.

OPINION AND REVIEW CONCLUSION

Opinion – Financial Information for the Relevant Period:

In our opinion, the Financial Information gives a true and fair view of the state of affairs of the Target Group as at 31 December 2010 and 2011 and 31 August 2012, and of the Target Group's results and cash flows for the Relevant Period in accordance with HKFRSs and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Review conclusion – 31 August 2011 Corresponding Information

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the 31 August 2011 Corresponding Information is not prepared, in all material aspects, in accordance with HKFRSs.

FINANCIAL INFORMATION

Combined statements of comprehensive income of the Target Group

	Notes	Period from 26 August 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Eight months ended 31 August 2011	Eight months ended 31 August 2012
		HK$	*HK$*	*HK$*	*HK$*
		Audited	*Audited*	*Unaudited*	*Audited*
REVENUE	*5*	—	—	—	81,686,633
Cost of goods sold	*6*	—	—	—	(64,039,766)
Gross profit		—	—	—	17,646,867
Other income and gains	*5*	—	—	—	90
Selling and distribution cost		—	—	—	(2,090,680)
General and administrative expenses		(5,300)	(88,303)	(38,715)	(1,969,469)
PROFIT/(LOSS) BEFORE TAX	*6*	(5,300)	(88,303)	(38,715)	13,586,808
Income tax expense	*8*	—	—	—	(3,403,636)
PROFIT/(LOSS) FOR THE YEAR/PERIOD		(5,300)	(88,303)	(38,715)	10,183,172
OTHER COMPREHENSIVE INCOME					
Exchange difference on translation of foreign subsidiary		—	(17,061)	—	(125,418)
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX		—	(17,061)	—	(125,418)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		(5,300)	(105,364)	(38,715)	10,057,754

Combined statements of financial position of the Target Group

	Notes	31 December 2010 HK$ Audited	31 December 2011 HK$ Audited	31 August 2012 HK$ Audited
NON-CURRENT ASSETS				
Property, plant and equipment	11	—	772,396	1,861,070
Total non-current assets		—	772,396	1,861,070
CURRENT ASSETS				
Inventories	13	—	2,908	10,257,069
Trade receivables	14	—	—	33,180,184
Due from a shareholder	15	—	—	—
Prepayments, deposits and other receivables	16	—	7,330,910	222,523
Cash and bank balances	17	—	381,162	2,021,471
Total current assets		—	7,714,980	45,681,247
CURRENT LIABILITIES				
Trade payables	18	—	—	26,434,580
Other payables and accruals	19	5,300	47,575	4,317,265
Due to a related company	15	—	5,398,350	—
Due to a shareholder	15	—	3,152,115	3,904,354
Tax payables		—	—	2,939,020
Total current liabilities		5,300	8,598,040	37,595,219
NET CURRENT ASSETS/ (LIABILITIES)		(5,300)	(883,060)	8,086,028
Net assets/(liabilities)		(5,300)	(110,664)	9,947,098
EQUITY/(DEFICIENCY IN ASSETS)				
Issued capital	20	—	—	8
Reserves		(5,300)	(110,664)	9,947,090
Total equity/(deficiency in assets)		(5,300)	(110,664)	9,947,098

Combined statements of changes in equity of the Target Group

	Issued capital *HK$* *Audited*	**(Accumulated losses)/ retained profits** *HK$* *Audited*	**Exchange reserve** *HK$* *Audited*	**Total** *HK$* *Audited*
At 26 August 2010 (date of incorporation)	—	—	—	—
Total comprehensive income for the period	—	(5,300)	—	(5,300)
At 31 December 2010 and at 1 January 2011	—	(5,300)	—	(5,300)
Total comprehensive income for the year	—	(88,303)	(17,061)	(105,364)
At 31 December 2011 and at 1 January 2012	—	(93,603)	(17,061)	(110,664)
Issue of shares	8	—	—	8
Total comprehensive income for the period	—	10,183,172	(125,418)	10,057,754
At 31 August 2012	8	10,089,569	(142,479)	9,947,098

	Issued capital *HK$* *Unaudited*	**Accumulated losses** *HK$* *Unaudited*	**Exchange reserve** *HK$* *Unaudited*	**Total** *HK$* *Unaudited*
Unaudited movements for the period from 1 January 2011 to 31 August 2011:				
At 1 January 2011	—	(5,300)	—	(5,300)
Total comprehensive income for the period	—	(38,715)	—	(38,715)
At 31 August 2011	—	(44,015)	—	(44,015)

Statements of cash flows of the Target Group

	Period from 26 August 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Eight months ended 31 August 2011	Eight months ended 31 August 2012
	HK$	*HK$*	*HK$*	*HK$*
	Audited	*Audited*	*Unaudited*	*Audited*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax	(5,300)	(88,303)	(38,715)	13,586,808
Adjustments for:				
Bank interest income	—	—	—	(90)
Depreciation of property, plant and equipment	—	—	—	380,896
	(5,300)	(88,303)	(38,715)	13,967,614
Increase in inventories	—	(2,853)	—	(10,346,203)
Increase in trade receivables	—	—	—	(33,477,874)
Decrease/(increase) in prepayments deposits and other receivables	—	(7,255,404)	—	7,034,044
Increase in trade payables	—	—	—	26,704,244
Increase in other payables and accruals	5,300	41,576	—	4,308,530
Cash generated from/(used in) operations	—	(7,304,984)	(38,715)	8,190,355
Income tax paid	—	—	—	(438,247)
Interest received	—	—	—	90
Net cash flows from/(used in) operating activities	—	(7,304,984)	(38,715)	7,752,198
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of items of property, plant and equipment	—	(757,795)	—	(1,490,466)
Advance to a shareholder	—	—	—	—
Net cash flows used in investing activities	—	(757,795)	—	(1,490,466)

	Period from 26 August 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Eight months ended 31 August 2011	Eight months ended 31 August 2012
	HK$	*HK$*	*HK$*	*HK$*
	Audited	*Audited*	*Unaudited*	*Audited*
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of share	—	—	—	8
Loan from/(repayment of) a related company	—	5,296,296	—	(5,369,004)
Loan from a shareholder	—	3,140,465	40,115	764,298
Net cash flows from/(used in) financing activities	—	8,436,761	40,115	(4,604,698)
NET INCREASE IN CASH AND CASH EQUIVALENTS	—	373,982	1,400	1,657,034
Cash and cash equivalents at beginning of year/period	—	—	—	381,162
Effect of foreign exchange rate change, net	—	7,180	—	(16,725)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	—	381,162	1,400	2,021,471
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	—	381,162	1,400	2,021,471

Statements of financial position of the Target Company

	Notes	31 December 2010 HK$ Audited	31 December 2011 HK$ Audited	31 August 2012 HK$ Audited
NON-CURRENT ASSETS				
Investment in subsidiaries	*13*	—	—	10,000
Total non-current assets		—	—	10,000
CURRENT LIABILITIES				
Due to a shareholder	*16*	—	—	21,292
Total current liabilities		—	—	(11,292)
NET CURRENT LIABILITIES		—	—	(9,992)
Net liabilities		—	—	(11,292)
DEFICIENCY IN ASSETS				
Issued capital	*21*	—	—	8
Reserves		—	—	(11,300)
Total deficiency in assets		—	—	(11,292)

NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND GROUP REORGANISATION

Chang Ye Holdings Limited (the "Target Company") is a limited liability company incorporated in the British Vigin Islands (the "BVI") and its registered office is located P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI. The principal activity of the Target Company is investment holding during the Relevant Period.

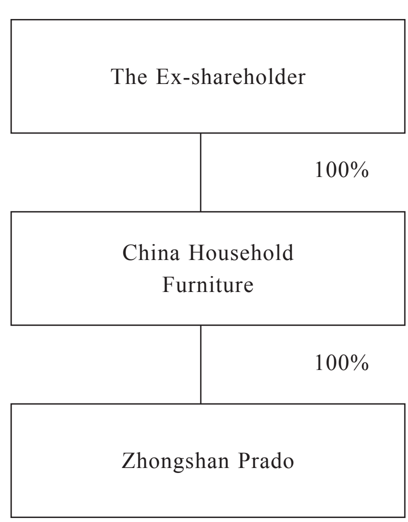
The Target Company and its subsidiaries (collectively, the "Target Group") were principally engaged in trading of furniture and provision of interior design services during the Relevant Period.

Reorganisation

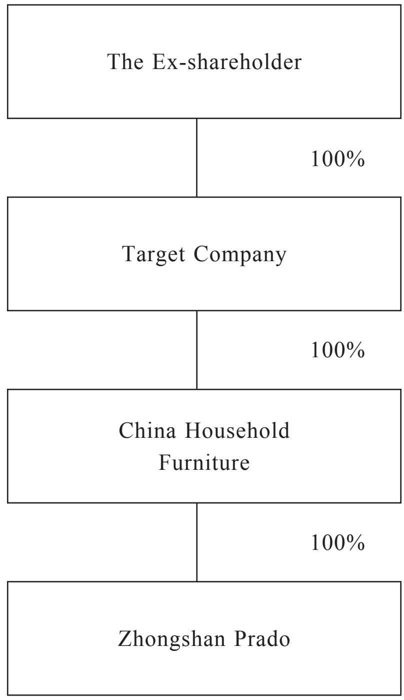
During the years ended 31 December 2010 and 2011, 100% equity interest of China Household Furniture was held by Mr. Kuang (the "Ex-shareholder"). Pursuant to reorganisation (the "Reorganisation") of China Household Furniture, the Ex-shareholder disposed of his entire equity interest in China Household Furniture to the Target Company, a company wholly owned by the Ex-shareholder on 24 August 2012. Subsequent to the end of the reporting period, on 7 September 2012, the Ex-shareholder disposed of his entire equity interest in the Target Company to Jolly Treasure Developments Limited (the "Vendor")

The following diagram shows the shareholding structure of China Household Furniture before and after the Reorganisation.

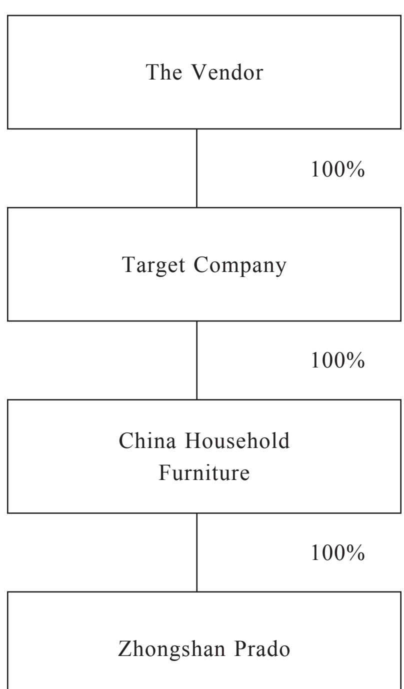
Before Reorganisation



After Reorganisation on 24 August 2012



After 7 September 2013



2.1 BASIS OF PREPARATION

Target Company and its subsidiaries are regarded as entities under common control and accounted for as a continuing group. Accordingly, for the purpose of this report, the Financial Information has been prepared on a combined basis by applying the principles of merger accounting as detailed below.

The Financial Information has been prepared as if the Target Company had been in existence throughout the Relevant Period. The combined statements of financial position of the Target Group as at 31 December 2010 and 31 December 2011 have been prepared to present the assets and liabilities of the Target Group as at that date as if the current group structure had been in existence at that date and the share capital of Target Company had been issued at that date.

The Financial Information and the 31 August 2011 Corresponding Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. In addition, the Financial Information and the 31 August 2011 Corresponding Information of the Target Group includes applicable disclosures required by the Rules (the "Listing Rules") Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited and the disclosure requirements Hong Kong Companies Ordinance. The Financial Information and the 31 August 2011 Corresponding Information have been prepared under the historical cost convention and presented in Hong Kong Dollars.

Application of merger accounting

For the purpose of these combined Financial Information, the combining entities are Target Company, China Household Furniture and Zhongshan Prado (collective referred to as the "Target Group"). The combined Financial Information have been prepared to reflect the aggregation of the financial information of the Target Company, China Household Furniture and Zhongshan Prado are ultimately controlled collectively by the Vendor.

These combined Financial Information have been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by HKICPA, in accounting for the Reorganisation.

The combined Financial Information include the combined statements of financial position, combined statements of comprehensive income and combined statements of cash flows of the companies comprising the Target Group as if the current group structure had been in existence as at 26 August 2011 or since their respective dates of incorporation. For companies acquired from a third party during the period, they would be included in the combined Financial Information of the Target Group from the date of that acquisition.

2.2 EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs. The Target Group has early adopted these new and revised HKFRSs except for those listed in note 2.3 below in preparing the Financial Information and the 31 August 2011 Corresponding Information. The adoption of these new and revised HKFRSs did not have any significant impact on the Financial Information and the 31 August 2011 Corresponding Information.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle[2]
HKFRS 1 (Amendments)	Government Loans[2]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Combined Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Combined Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
HKAS 1 (Amendments)	Presentation of Item of Other Comprehensive Income[1]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Presentation – Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The Target Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Target Group considers that the adoption of these new and revised HKFRSs are unlikely to have a significant impact on the Target Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Target Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in Target Company's combined statement of comprehensive income to the extent of dividends received and receivable. The Target Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Merger accounting for common control combination

The combined Financial Information incorporate the financial information of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period regardless of the date of the common control combination.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balance and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the combined statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the combined statement of comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

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

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

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

or

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

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

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

(iii) the entity and the group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the combined statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives of property, plant and equipment are as follows:

Furniture and fixtures	20%
Motor vehicles	20%
Computer equipments	20%-33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the combined statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset and whether the arrangement conveys a right to use the asset.

Operating lease payments, net of any incentives received from the lessor, are recognised as an expense in the combined statement of comprehensive income on a straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Target Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Target Group's financial assets include cash and bank balances, trade receivables, deposits and other receivables and amount due from a shareholder.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the combined statement of comprehensive income. The loss arising from impairment is recognised in the combined statement of comprehensive income in other operating expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or

- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent is has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Target Group's continuing involvement in the asset. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Impairment of financial assets

The Target Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Target Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the combined statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the combined statement of comprehensive income.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Target Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Target Group's financial liabilities include trade payables, other payables and accruals, amounts due to a related company and a shareholder.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the combined statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the combined statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statements of comprehensive income.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first in, first out basis and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the combined statement of financial positions, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the combined statement of comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax law) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each of the end of the reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income is recognised using the effective interest rate method.

Employee benefits

The employees of the Target Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the combined statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is functional and presentation currency of the Target Company. Each entity in the Target Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to combined statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on the retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of at the exchange rates ruling at the end of the reporting period and, their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are included in a separate component of the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the combined statement of comprehensive income.

For the purpose of the combined statements of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Target Group's accounting policies, management has made the following judgements, apart from these involving estimates, which have the most significant effect on the amounts recognised in the Financial Information:

Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Target Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Useful lives of property, plant and equipment

The management of the Target Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

4. OPERATING SEGMENT INFORMATION

Management monitors the results of the Target Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from operations. The adjusted profit before tax from operations is measured consistently with the Target Group's (loss)/profit before tax from operations.

For management purposes, the Target Group is organised into business units based on their products and services and has a single operating and reportable segment — the trading of furniture in the People's Republic of China (the "PRC"). All of the Target Group's revenue from external customers and operating profit are generated from this single segment.

Geographical information

As at the respective reporting period ends, over 90% of the Target Group's assets were located in PRC and over 90% of the revenue are generated in the PRC. Accordingly, no further geographical information of non-current asset and revenue was disclosed.

Information about major customers

The following is an analysis of the Target Group's revenue from operations from its major customers:

	Period from 26 August 2010 (date of incorporation) to 31 December	Year ended 31 December	Eight months ended 31 August	
	2010	**2011**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
	Audited	*Audited*	*Unaudited*	*Audited*
Customer A	—	—	—	39,543,491
Customer B	—	—	—	29,413,682
Customer C	—	—	—	12,729,460

The Target Group has a significant concentration of credit risk as the Target Group has only 3 major customers.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Target Group's turnover, represents the net invoiced value of goods sold, after allowance for returns and trade discounts during the Relevant Period. The Target Group has commenced its business since March 2012.

An analysis of revenue, other income and gains are as follows:

Target Group

	Period from 26 August 2010 (date of incorporation) to 31 December	Year ended 31 December	Eight months ended 31 August	
	2010	**2011**	**2011**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
	Audited	*Audited*	*Unaudited*	*Audited*
Revenue				
Sales of goods	—	—	—	81,686,633
Other income and gains				
Bank interest income	—	—	—	90
Total revenue, other income and gains	—	—	—	81,686,723

6. PROFIT/(LOSS) BEFORE TAX

The Target Group's profit/(loss) before tax is arrived after charging/(crediting):

Target Group

	Period from 26 August 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Eight months ended 31 August 2011	Eight months ended 31 August 2012
	HK$	*HK$*	*HK$*	*HK$*
	Audited	*Audited*	*Unaudited*	*Audited*
Auditors' remuneration	5,000	5,000	—	—
Cost of inventories sold	—	—	—	64,039,766
Depreciation	—	—	—	380,896
Minimum lease payments under operating leases of land and buildings	—	—	36,276	399,660
Preliminary expenses	—	—	—	11,300
Staff costs (excluding director's remuneration *(note 7)*): — Salaries, allowances and benefits in kind	—	—	—	784,489
Bank interest income	—	—	—	(90)

7. DIRECTOR'S REMUNERATION

The director's remuneration for the Relevant Period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Director's fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Total
	HK$	*HK$*	*HK$*	*HK$*
	Audited	*Audited*	*Audited*	*Audited*
Eight months ended 31 August 2012				
Directors				
Kuang Yuanwei *(note a)*	—	566,883	1,662	568,545
Chu Ping Hang *(note b)*	—	—	—	—
Company Kit Secretarial Service Limited *(note c)*	—	—	—	—
	—	566,883	1,662	568,545

No directors received any fees or emoluments in respect of their services rendered to the Target Group during the period from 26 August 2010 (date of incorporation) to 31 December 2010, year ended 31 December 2011 and eight months ended 31 August 2011.

Note a: appointed on 13 March 2012

Note b: appointed on 20 June 2011 and resigned on 13 March 2012

Note c: appointed on 28 August 2010 and resigned on 20 June 2011

The remuneration fell within the band of Nil to HK$1,000,000.

8. INCOME TAX

No Hong Kong profits tax has been provided for the Relevant Period as the Target Company did not generate any assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Target Group operates. Under the Corporate Income Tax Law, the PRC Corporate income tax rate is calculated at rate of 25% on the assessable profits arising from the PRC during the Relevant Period.

Target Group

	Period from 26 August 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Eight months ended 31 August 2011	2012
	HK$	*HK$*	*HK$*	*HK$*
	Audited	*Audited*	*Unaudited*	*Audited*
Current tax				
— Hong Kong	—	—	—	—
— PRC corporate income tax	—	—	—	3,403,636
Tax expenses	—	—	—	3,403,636

A reconciliation of the tax expenses applicable to profit/(loss) before tax using the statutory tax rate to the tax expense at the effective tax rate is as follows:

Target Group

	Period from 26 August 2010 (date of incorporation) to 31 December 2010		Year ended 31 December 2011		Eight months ended 31 August 2011		2012	
	HK$	*%*	*HK$*	*%*	*HK$*	*%*	*HK$*	*%*
	Audited		*Audited*		*Unaudited*		*Audited*	
Profit/(loss) before tax	(5,300)		(88,303)		(38,715)		13,586,808	
Tax at tax rate prevailing at countries in which the Group operates	(874)	16.5	(18,334)	20.8	(6,388)	16.5	3,397,705	25.0
Expenses not deductible for tax	874	(16.5)	18,334	(20.8)	6,388	(16.5)	5,931	—
Tax charges at effective tax rate	—	—	—	—	—	—	3,403,636	25.0

9. EARNINGS/(LOSS) PER SHARE

No earnings/(loss) per share is presented as the calculation of basic earnings/(loss) per share is not meaningful for the purpose of this report.

10. DIVIDEND

The sole director does not recommend the payment of any dividend in respect of the Relevant Period.

11. PROPERTY, PLANT AND EQUIPMENT

Target Group

	Furniture and fixtures *HK$* *Audited*	Motor vehicles *HK$* *Audited*	Computer equipments *HK$* *Audited*	Total *HK$* *Audited*
31 August 2012				
At 1 January 2012				
Cost	127,072	—	645,324	772,396
Accumulated depreciation	—	—	—	—
Net carrying amount	127,072	—	645,324	772,396
At 1 January 2012, net of accumulated depreciation	127,072	—	645,324	772,396
Additions	284,244	340,772	865,450	1,490,466
Depreciation provided for the period	(29,034)	(20,446)	(331,416)	(380,896)
Exchange realignment	(4,084)	(2,849)	(13,963)	(20,896)
At 31 August 2012, net of accumulated depreciation	378,198	317,477	1,165,395	1,861,070
At 31 August 2012				
Cost	406,974	337,742	1,493,863	2,238,579
Accumulated depreciation	(28,776)	(20,265)	(328,468)	(377,509)
Net carrying amount	378,198	317,477	1,165,395	1,861,070

Target Group

	Furniture and fixtures *HK$* *Audited*	Motor vehicles *HK$* *Audited*	Computer equipments *HK$* *Audited*	Total *HK$* *Audited*
31 December 2011				
At 1 January 2011				
Cost	—	—	—	—
Accumulated depreciation	—	—	—	—
Net carrying amount	—	—	—	—
At 1 January 2011, net of accumulated depreciation	—	—	—	—
Additions	124,670	—	633,125	757,795
Depreciation provided for the year	—	—	—	—
Exchange realignment	2,402	—	12,199	14,601
At 31 December 2011, net of accumulated depreciation	127,072	—	645,324	772,396
At 31 December 2011				
Cost	127,072	—	645,324	772,396
Accumulated depreciation	—	—	—	—
Net carrying amount	127,072	—	645,324	772,396

12. INVESTMENT IN SUBSIDIARIES

Target Company

	31 December 2010 HK$ Audited	31 December 2011 HK$ Audited	31 August 2012 HK$ Audited
Unlisted share, at cost	—	—	10,000
Impairment	—	—	—
	—	—	10,000

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Registered capital	Percentage of equity interest attributable to the Target Company Direct	Indirect	Principal activities
China Household Furniture Holdings Limited #	Hong Kong	HK$10,000	100%	—	Investment holding
Zhongshan City Prado Style Household Company Limited * 中山市普納度風尚家居有限公司	The People's Republic of China (The "PRC")	US$2,100,000	—	100%	Trading of furniture

\# As detailed in note 1, the subsidiary is newly acquired by the Target Company from the Vendor on 24 August 2012. China Household Furniture was incorporated in Hong Kong with limited liability on 26 August 2010. Pursuant to a special resolution passed on 20 June 2011, the name of the China Household Furniture was changed from "Realty Bright Worldwide Limited" to "China Household Furniture Holdings Limited".

* The subsidiary is newly established as a limited company in the PRC on 30 September 2011 with the registered capital of US$2,100,000 (equivalent to HK$16,380,000). As at 31 December 2011 and 31 August 2012, the China Household Furniture has contributed an aggregate amount of US$319,968 (equivalent to HK$2,495,750) to this subsidiary. On 8 May 2012, the name of the Zhongshan Pardo was changed from "Oasis Home Furnishings (Zhongshan City) Company Limited" "中山市綠洲家居有限公司" to "Zhongshan City Prado Style Household Company Limited" "中山市普納度風尚家居有限公司".

13. INVENTORIES

Target Group

	31 December 2010 HK$ Audited	31 December 2011 HK$ Audited	31 August 2012 HK$ Audited
Finished goods	—	2,908	10,257,069

14. TRADE RECEIVABLES

Target Group

	31 December 2010 HK$ Audited	31 December 2011 HK$ Audited	31 August 2012 HK$ Audited
Trade receivables	—	—	33,180,184
Impairment	—	—	—
	—	—	33,180,184

The Target Group's trading terms with its customers are mainly on credit. The credit period is generally one to four months. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Target Group's trade receivables relate to a small number of customers, there is significant concentration of credit risk. Trade receivables are non-interest-bearing.

Details of the aging analysis of trade receivables, based on the invoice date, are as follows:

Target Group

	31 December 2010 HK$ Audited	31 December 2011 HK$ Audited	31 August 2012 HK$ Audited
Current	—	—	33,180,184

The aged analysis of all the trade receivables that are not considered to be impaired is as follows:

Target Group

	31 December 2010 HK$ Audited	31 December 2011 HK$ Audited	31 August 2012 HK$ Audited
Neither past due nor impaired	—	—	33,180,184

Receivables that were past due but not impaired relate to two major independent customers that have a good track record with the Target Group. Based on past experience, and the directors have performed an assessment, the directors of the Target Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

15. BALANCES WITH A SHAREHOLDER AND A RELATED COMPANY

The balances with a shareholder and a related company are unsecured, interest-free and have no fixed terms of repayment.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Target Group

	31 December 2010 *HK$* *Audited*	31 December 2011 *HK$* *Audited*	31 August 2012 *HK$* *Audited*
Prepayments	—	—	2,406
Deposits	—	7,330,910	29,619
Other receivables	—	—	190,498
	—	7,330,910	222,523

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

17. CASH AND BANK BALANCES

Target Group

	31 December 2010 *HK$* *Audited*	31 December 2011 *HK$* *Audited*	31 August 2012 *HK$* *Audited*
Cash and bank balances	—	381,162	2,021,471

At 31 December 2011 and 31 August 2012, approximately HK$379,000 and HK$1,634,000, respectively, of the Target Group's cash and bank balances were denominated in Renminbi, which is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

18. TRADE PAYABLES

Target Group

	31 December 2010 *HK$* *Audited*	31 December 2011 *HK$* *Audited*	31 August 2012 *HK$* *Audited*
Trade payables	—	—	26,434,580

Details of the aging analysis of trade payables, based on the invoice date are as follows:

Target Group

	31 December 2010 HK$ Audited	31 December 2011 HK$ Audited	31 August 2012 HK$ Audited
Current	—	—	25,462,746
31 to 60 days	—	—	971,834
	—	—	26,434,580

19. OTHER PAYABLES AND ACCRUALS

Target Group

	31 December 2010 HK$ Audited	31 December 2011 HK$ Audited	31 August 2012 HK$ Audited
Other payables	—	36,975	1,836,997
Other tax payables	—	—	2,346,137
Accruals	5,300	10,600	134,131
	5,300	47,575	4,317,265

20. SHARE CAPITAL

Target Company

	31 December 2010 HK$ Audited	31 December 2011 HK$ Audited	31 August 2012 HK$ Audited
Authorised:			
50,000 ordinary shares of US$1.00 each	—	—	390,000
Issued and fully paid:			
1 ordinary share of US$1.00	—	—	8

On incorporation, the Target Company's authorised capital was US$50,000, divided into 50,000 ordinary shares of US$1.00 each, and of which 1 share of US$1 was issued at par for cash on incorporation as a subscriber share.

21. OPERATING LEASE ARRANGEMENTS

As lessee

The Target Group leases its office premises under operating lease arrangements. Lease for the property are negotiated for terms ranging from 1 to 3 years.

At each of the end of the reporting period, the Target Group had total future minimum lease payments under non-cancellable operating lease in respect of office premises, as follows:

Target Group

	31 December 2010	**31 December 2011**	**31 August 2012**
	HK$	*HK$*	*HK$*
	Audited	*Audited*	*Audited*
Within one year	—	293,951	920,554
In the second to fifth years inclusive	—	406,725	1,192,400
	—	700,676	2,112,954

22. CAPITAL COMMITMENTS

In addition to operating lease commitments detailed in note 21 above, the Target Group had the following capital commitments at the end of the reporting period:

Target Group

	31 December 2010	**31 December 2011**	**31 August 2012**
	HK$	*HK$*	*HK$*
	Audited	*Audited*	*Audited*
Contracted but not provided for:			
Property, plant and equipments	—	—	2,587,263
Capital contribution to a subsidiary	—	13,848,649	13,848,649
	—	13,848,649	16,435,912

23. CONTINGENT LIABILITIES

The Target Group and Target Company did not have any significant contingent liabilities as at the respective reporting period ends.

24. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in this report, the Target Group had the following transactions with related parties during the Relevant Period:

Target Group

	Period from 26 August 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Eight months ended 31 August 2011	2012
			2011	2012
	HK$	*HK$*	*HK$*	*HK$*
	Audited	*Audited*	*Unaudited*	*Audited*
Purchases of goods				
A related company *	—	—	—	6,808,441

* The sole director of the Target Company is a director of the related company. The sole director of the Target Company is of the opinion that the above transactions were conducted under normal commercial terms and in the ordinary course of the Target Group's business.

25. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows:

Target Group

	Loans and receivables		
	31 December 2010	31 December 2011	31 August 2012
	HK$	*HK$*	*HK$*
	Audited	*Audited*	*Audited*
Financial assets			
Trade receivables	—	—	33,180,184
Financial assets included in deposits and other receivables	—	7,330,910	220,117
Cash and bank balances	—	381,162	2,021,471
	—	7,712,072	35,421,772

	Financial liabilities at amortised cost		
	31 December 2010	31 December 2011	31 August 2012
	HK$	*HK$*	*HK$*
	Audited	*Audited*	*Audited*
Financial liabilities			
Trade payables	—	—	26,434,580
Financial liabilities included in other payables and accruals	5,300	47,575	4,317,265
Due to a related company	—	5,398,350	—
Due to a shareholder	—	3,152,115	3,904,354
	5,300	8,598,040	34,656,199

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's exposure to market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Target Group's financial management policies and practices described below:

Credit risk

The Target Group's credit risk is primarily attributable to trade receivables, deposits and other receivables, the amount due from a shareholder and bank balances. All the bank balances were made with financial institutions with high-credit quality. The Target Group had concentration of credit risk as 100% of the Target Group's trade receivables were due from its three largest customers as at 31 August 2012.

Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade and bills receivables) and projected cash flows from operations.

Interest rate risk

The Target Group has no significant interest-bearing financial assets and liabilities with a floating interest rate as at 31 August 2012. The Target Group's results and operating cash flows are substantially independent of changes in market interest rates.

Foreign exchange risk

The Target Group mainly operates in PRC with most of the transactions denominated in Renminbi ("RMB"). During the Relevant Period, the exchange rate of RMB was quite stable and the Target Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure should the need arises.

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Target Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes trade payables, other payables and accruals, amounts due to a related company and a shareholder less cash and bank balances. Capital includes equity attributable to owners of the Target Group.

	31 December 2010	**31 December 2011**	**31 August 2012**
	HK$	*HK$*	*HK$*
	Audited	*Audited*	*Audited*
Trade payables	—	—	26,434,580
Other payables and accruals	5,300	47,575	4,317,265
Due to a related company	—	5,398,350	—
Due to a shareholder	—	3,152,115	3,904,354
Less: Cash and bank balances	—	(381,162)	(2,021,471)
Net debts	5,300	8,216,878	32,634,728
Equity attributable to equity holders	(5,300)	(110,664)	9,947,090
Capital and net debts	—	8,106,214	42,581,818
Gearing ratio	N/A	101%	76%

27 EVENTS AFTER THE REPORTING PERIOD

Except for the disposal of entire equity interest in the Target Company from the Ex-shareholder to the Vendor as detailed in note 1, the Target Group does not have any material events after the end of the reporting period.

28 SUBSEQUENT FINANCIAL INFORMATION

No audited financial information has been prepared for Target Group in respect of any period subsequent to 31 August 2012.

Yours faithfully,

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong
Practicing Certificate Number P03723
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is a discussion and analysis of the Target Group's results of operation for the period from 26 August 2010 (date of incorporation) to 31 December 2010, year ended 31 December 2011 and for the eight months ended 31 August 2012 (the "**Relevant Periods**").

I. Business Scope and Analysis of Operations

1. Corporate information

The Target Company was incorporated in the British Virgin Islands ("BVI") as a limited liability company on 10 August 2012. Its principal activity is investment holding.

China Household Furniture is a limited liability company incorporated under the Hong Kong Companies Ordinance on 26 August 2010 and its principal activity is investment holding during the Relevant Periods. As at the Latest Practicable Date, the Hong Kong Company is 100% held by the Target Company. Pursuant to a special resolution passed on 20 June 2011, China Household Furniture, formerly named "Realty Bright Worldwide Limited", has changed its corporate name to "China Household Furniture Holdings Limited".

Zhongshan Prado (formerly known as Zhongshan City Oasis Household Company Limited) is a wholly foreign-owned enterprise established in the PRC on 30 September 2011. Zhongshan Prado adopted its current name on 8 May 2012. Zhongshan Prado is principally engaged in the trading of furniture and provision of interior design services and it is the principal operating company of the Target Group. As at the Latest Practicable Date, Zhongshan Prado is 100% held by China Household Furniture.

2. Business Scope

At present, Zhongshan Prado has one retail shop located in Zhongshan. The operation has been started off since mid of 2012 and there is another retail shop which is also located in Zhongshan planned to commence business in late 2012.

In early 2012, Zhongshan Prado expanded its existing trading of wooden home furnishing products business through a vertical integration, into the end user sector who is used to be the customer of the existing trading business. Zhongshan Prado will provide one-stop comprehensive home furnishing solutions covering various aspects, namely provision of interior design services, co-ordination of the home fitting-out works and sourcing of home décor materials and items. Such one-stop home furnishing solutions provided will encompass (i) overall planning of home furnishing interior design covering home structure, functional design, and planning of line, color and space in the design concept; (ii) comprehensive co-ordination in home fitting-out works; and (iii) the overall arrangement and sourcing of decorative materials, home electrical appliances, lighting products, sanitary ware, kitchen cabinets, furniture and other home furnishing products.

To comment on the external environment of such industry; along with the growth of the PRC economy and the rising disposable income of the PRC customers, living standard of the PRC consumers has generally improved. Therefore, it is expected that there will be more home fitting-out, decoration and upgrading activities of old household products with new or better products that possess better style, design, quality and features. In addition, there is a growing popularity of home fitting-out and decoration which reflects individual's taste and personal style. The aforesaid trends in the PRC home fitting-out and decoration market will in turn drive the demand of home furnishing solution which will probably save customer's time and cost in obtaining stylish and personalized home furnishing design services, products and home fitting out works.

One-stop home furnishing solutions of the Target Group target at high-end home furnishing solutions market which differentiates itself from other competitors by offering tailor-made, stylish and personalized home furnishing solutions according to customers' individual preferences, tastes and requirements. Not only will such new business and business strategy would increase customer value, but will also create synergy among the existing businesses.

II. Financial Review

1. Revenue

For the period from 26 August 2010 (date of incorporation) to 31 December 2010 ("Period 2010") and year ended 31 December 2011 ("FY 2011"), the Target Group did not generate any revenue. The net loss for the Period 2010 and FY 2011 were approximately HK$5,000 and HK$88,000, respectively, which are entirely attributable to general and administrative expenses incurred.

For the eight months ended 31 August 2012, the Target Group's revenue of approximately HK$81,686,000 was mainly attributable to the commencement of its home furnishing products trading and interior design services.

As at 31 August 2012, the Target Group has three major customers which were engaged in the business of retail and wholesale of wooden home furnishing products, wooden construction materials and such raw materials. During the Relevant Periods, the Target Group have sold wooden furniture and wooden furniture raw materials to these three major customers.

2. Gross profit margin

The gross profit margin is not available in Period 2010 and FY 2011 as the Target Group has not yet commenced its business. The gross profit margin for the eight months ended 31 August 2012 was approximately 21.6% which is solely contributed by its trading business and interior design services.

The reason for the Target Group in recording a double-digit gross profit margin is two-folded. Firstly, it was partly attributable to the utilization of management expertise and capabilities. Mr. Li Tang, the design director, has considerable experience in quality control management and procurement operation experience and familiar with the sourcing channels and resources in home furnishing products and building materials industry.

Secondly, it was contributed by bulk purchase order placed by the Target Group for taking advantage of discount on purchases. Therefore, the cost of goods sold is comparatively lower than a normal purchase. To determine the size of purchase order for enjoying the economies of scale of purchases, the supply chain management centre director Mr. Fan has endeavored to strike a balance between taking advantage of the bulk purchase and the holding costs and other relevant factors.

3. Expenses and costs

The operating profit ratio (being profits before tax as a percentage of revenue) and the net profit ratio for the eight months ended 31 August 2012 were approximately 16.6% and 12.5% respectively. No such ratios have been presented for Period 2010 and FY 2011 as the Target Group has not generated any revenue during such periods.

The operating profits ratio was approximately 16.6% whereas the gross profit margin was approximately 21.6%. Such difference is attributable to selling and distribution costs and general administrative expenses incurred during the eight months ended 31 August 2012.

As the Target Group has not commenced its business in both Period 2010 and FY 2011, there were minimal and insignificant selling & distribution and administrative expenses incurred. For the eight months ended 31 August 2012, the selling and distribution expenses, and administrative expense were approximately HK$2,090,000 and HK$1,969,000 respectively.

During the eight months ended 31 August 2012, the administrative expenses increased from approximately HK$88,000 in FY 2011 to HK$1,969,000, such increase was mainly attributable to the increase in depreciation, operating lease payments in respect of the land and building and staff costs.

Operating lease payments for the eight months ended 31 August 2012 increased from approximately HK$36,000 in FY 2011 to HK$399,000, representing an approximately ten times increase as a result of inception of operating lease in respect of office premises.

Staff costs had not yet been incurred during Period 2010 and FY 2011 as the Target Group has neither incorporated nor commenced its business yet. During the eight months ended 31 August 2012, staff cost of the Target Group increased to approximately HK$784,000. Such increase was mainly due to expansion of marketing department and thus the number of sales staff increased in order to cope with business expansion. As at 31 August 2012, the number of staff employed by the Target Group was 38.

During the eight months ended 31 August 2012, the Target Group incurred a taxation expense of approximately HK$3,403,000 being enterprise income tax payable to the PRC government.

4. *Non-Current assets*

As at 31 December 2010, 31 December 2011 and 31 August 2012, the non-current assets solely consisted of property, plant and equipment ("**PPE**"). PPE were nil, approximately HK$772,000 and HK$1,861,000 as at 31 December 2010, 31 December 2011 and 31 August 2012 respectively. PPE increased by approximately HK$1,088,000, recorded an approximately 141% growth over the eight months ended 31 August 2012.

During the eight months ended 31 August 2012, there was addition of PPE of approximately HK$1,490,000 for supporting the future growth of the Target Group. The majority of the PPE investment was resulted from additions of computer hardware and software with an amount of approximately HK$865,000.

The management of the Target Group considered that a good supply chain management system will contribute to the survival of a trading business. As such, the above mentioned addition of computer hardware and software which is used in the supply chain management was made for improving the trading business's operation and customer relationship management by utilizing the organized customer data.

5. Current assets

As at 31 December 2010, 31 December 2011, and 31 August 2012, the Target Group's current assets comprised mainly of inventories, trade receivables, prepayments, deposits and other receivables and cash and bank balances.

a. Inventories

As at 31 August 2012, inventories increased from HK$2,908 as at 31 December 2011 to approximately HK$10,257,000. Such increase was attributable to stockpiling for foreseeable sales.

b. Trade receivables

As at 31 August 2012, trade receivables increased to approximately HK$33,180,000 (represented 127 debtor turnover days). Debts are usually due from one to four months from the date of billing. The Target Group's trading terms with its customers are mainly on credit. The credit period is generally one to four months. The Target Group may, on case by case basis and after evaluation of business relationship and creditworthiness, extend the credit period upon a customer request. The trade receivables of approximately HK$33,180,000 as at 31 August 2012 were due within one month and the trade receivables have been fully settled subsequent to the end of the reporting period in September 2012.

c. Prepayments, deposits and other receivables

As at 31 August 2012, prepayments, deposits and other receivables decreased from approximately HK$7,330,000 as at 31 December 2011 to approximately HK$222,000. Such decrease was attributable to settlement of a major other receivable representing the entirety of prepayments, deposits and other receivables as at 31 December 2011.

d. Cash and bank balances

As at 31 August 2012, Cash and bank balances increased from approximately HK$381,000 as at 31 December 2011 to approximately HK$2,021,000, representing a growth of approximately 4.3 times. Such increase in cash was contributed by cash generated from business operation of the Target Group in 2012.

6. Current liabilities

As at 31 December 2010, 31 December 2011 and 31 August 2012, current liabilities primarily consisted of trade payables, other payables and accruals, amount due to a shareholder and tax payables.

a. Trade payables

As at 31 August 2012, trade payables were approximately HK$26,434,000. They were principally arisen from general credit terms provided by suppliers in the ordinary course of trading business.

b. Other payables and accruals

Other payables and accruals consisted of other payables and other tax payables. Other tax payables represented the local tax expenses arisen from assessment of local tax authorities. As at 31 August 2012, the other payables and accruals have increased from approximately HK$47,000 as at 31 December 2011 to approximately HK$4,317,000. Such increase was attributable to the increase of other payables from approximately HK$36,000 as at 31 December 2011 to HK$1,837,000 and the increase of other tax payables of approximately HK$2,346,000 during the period ended 31 August 2012.

c. *Tax payables*

As at 31 August 2012, tax payables of approximately HK$2,939,000 represented PRC enterprise income tax expenses. The fact that no tax expense incurred for the years ended 31 December 2010 and 2011 was due to business has yet to be commenced in the Period 2010 and FY 2011. As at 31 August 2012, the tax payables were estimated based on the assessable profits arising from the Target Group.

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

The Target Group did not have any material acquisitions and disposals of subsidiaries and associated companies during the Relevant Periods and no significant investment was held by the Target Group as at 31 December 2010, 31 December 2011 and 31 August 2012.

8. Future plans for material investment or capital assets

As at 31 December 2010, 31 December 2011 and 31 August 2012, the Target Group had no future plans for material investment or capital assets.

9. Capital commitments

As at 31 December 2010, 31 December 2011 and 31 August 2012, the Target Group had the following capital commitments:

	31 December 2010	**31 December 2011**	**31 August 2012**
	HK$	*HK$*	*HK$*
	Audited	*Audited*	*Audited*
Contracted but not provided for:			
Property, plant and equipments	—	—	2,587,263
Capital contribution to a subsidiary	—	13,848,649	13,848,649
	—	13,848,649	16,435,912

10. Charge on assets

As at 31 December 2010, 31 December 2011 and 31 August 2012, the Target Group did not have any charges on assets.

11. Contingent liabilities

As at 31 December 2010, 31 December 2011 and 31 August 2012, the Target Group did not have any contingent liabilities.

III. Liquidity and financial position

The current ratio of the Target Group as at 31 December 2010, 31 December 2011 and 31 August 2012 were approximately 0.01 time, 0.90 time and 1.22 time respectively. The reason of a low current ratio as at 31 December 2010 was due to the fact that the Target Group was just incorporated and thus it relied on short term financing, i.e. other payables and accruals. The current ratio increased from 31 December 2010 to 31 December 2011 and from 31 December 2011 to 31 August 2012. The current ratio as at 31 August 2012 was not abnormal but due to the nature of this business. Across the furniture trading industry and general trading industry in Asia, such level of current ratio would be in line with the industry norm.

IV. Capital structure

In arriving at the gearing ratio of the Target Group, the directors of the Target Group considered that net debt should be taken into consideration. As such, gearing ratio of the Target Group is calculated as net debt (being sum of trade payables, other payables and accruals, amounts due to a related company and a shareholder adjusted by cash and bank balances) divided by total capital (being equity attributable to owners of the Target Group plus net debt). As at 31 December 2010, 31 December 2011 and 31 August 2012, the Target Group has net debt amounted to approximately HK$5,000, HK$8,217,000 and HK$32,635,000 respectively. The equity employed for the years ended 31 December 2010 and 2011 were both negative values of HK$5,000 and HK$111,000 respectively due to the accumulated losses incurred. As at 31 August 2012, the equity employed of the Target Group was approximately HK$9,947,000. Gearing ratios were not applicable to the Target Group as at 31 December 2010 given the sum of capital and net debt is zero. Gearing ratios as at 31 December 2011 and 31 August 2012 amounted to approximately 101% and 76% respectively. The Target Group has neither debt needed to be repaid immediately nor any interest-bearing liability, the financial risks in relation to the capital structure and source of finance is very minimal. Moreover, as demonstrated by the decent improvement in retained earnings from FY2011 to eight months ended 31 August 2012, the Target Group is able to support its growth by its own cash flow. The Target Group will monitor its capital structure and source of finance by considering the potential benefits arising from new debt and the financial risks that such debt will generate.

V. Number and remuneration of employees, remuneration policy, bonus and share option schemes and training schemes

As at 31 August 2012, the Target Group employed about 38 employees including sales and merchandising, design team, accounting and administrative staff in the PRC. The total staff costs and directors' remuneration for the eight months ended 31 August 2012 were approximately HK$799,000. Employees are remunerated based on market and industry practice. The remuneration policy and package of the Target Group's employees are regularly reviewed.

During the Relevant Periods, the Target Group does not have any share option schemes or training schemes.

VI. Market Risks

1. Credit risk

The maximum exposure to credit risk in the event of the counterparties failed to perform their obligations at the end of the reporting period in relation to each class of recognized financial assets is the carrying amount of those assets in the statements of financial position. The management considers the credit risks on remaining financial assets are minimal.

Credit risk on cash and bank balances are mitigated as counterparties are banks or financial institutions with high credit rating. Credit risk on account receivables, prepayments, deposits and other receivables are minimal as the Target Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the aging of the receivables balances, follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at each date of the reporting year to ensure that adequate impairment losses are made for the irrecoverable amount.

2. *Interest rate risk*

As at 31 August 2012, the Target Group did not have any interest-bearing debt or liabilities. Apart from major debt and liabilities as disclosed in the accountants report of the Target Group as set out in this appendix, the management considers the interest rate risk is minimal.

3. *Foreign currency risk*

Zhongshan Prado which operates in the PRC, is the major subsidiary of the Target Group. Almost all of the transactions of Zhongshan Prado are denominated and settled in its own functional currency, i.e. RMB. As Zhongshan Prado has both functional and presentational currency denominated in RMB, therefore the Target Group has no significant foreign exchange risk from the operation in PRC that might impact its consolidated result of operations.

While the combined financial statements of the Target Group were presented in HKD, it appears that any monetary financial assets or liabilities of the Target Group denominated in RMB were considered to cause no currency risks to the Target Group if such assets and liabilities denominated RMB were held by Zhongshan Prado. On the other hand, if hypothetically such any assets and liabilities denominated in RMB were held by China Household Furniture, currency risks would be resulted.

As a result, the Target Group has not used any financial instruments for hedging against neither fluctuation in interest rate nor foreign currencies as at 31 August 2012.

4. *Liquidity risk*

The Target Group manages its fund conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need. Liquidity risk is minimal as the Target Group has maintained a sufficient level of cash and bank balances and current assets to meet its financial obligations.

A. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Ascenda CACHET
天健德揚

14 December 2012

The Directors
Bao Yuan Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Bao Yuan Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), in connection with the proposed acquisition (the "Acquisition") of (i) 100% equity interests in Chang Ye Holdings Limited (the "Target Company") and its subsidiaries, China Household Furniture Holdings Limited (Formerly "Realty Bright Worldwide Limited") ("China Household Furniture") and Zhongshan City Prado Style Household Company Limited (中山市普納度風尚家居有限公司) (Formerly "Oasis Home Furnishings (Zhongshan City) Company Limited") ("Zhongshan Prado") (collectively, the "Target Group", and together with the Group, the "Enlarged Group"); and (ii) the shareholder's loan owed by the Target Group (the "Sale Loan"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the "Director") for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented, for inclusion in Appendix III of the circular dated 14 December 2012 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages IV-4 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information of the Enlarged Group in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information of the Enlarged Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information of the Enlarged Group beyond that owed to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information of the Enlarged Group with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information of the Enlarged Group has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information of the Enlarged Group as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information of the Enlarged Group is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance of indication that any event will take place in the future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 June 2012 or at any future date; or

- the results and cash flows of the Enlarged Group for the year ended 31 December 2011 or for any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information of the Enlarged Group has been properly compiled by the Directors of the Company on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information of the Enlarged Group as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong
Practicing Certificate Number P03723
Hong Kong

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. Introduction

The unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group, comprising the Enlarged Group's unaudited pro forma consolidated statement of financial position as at 30 June 2012, and the Enlarged Group's unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2011, has been prepared to illustrate the effect of the proposed acquisition of (i) 100% equity interests in Chang Ye Holdings Limited (the "Target Company") and its subsidiaries, China Household Furniture Holdings Limited (Formerly "Realty Bright Worldwide Limited") ("China Household Furniture") and Zhongshan City Prado Style Household Company Limited（中山市普納度風尚家居有限公司）(Formerly "Oasis Home Furnishings (Zhongshan City) Company Limited") ("Zhongshan Prado") (collectively, the "Target Group"); and (ii) the shareholder's loan owed by the Target Group (the "Sale Loan").

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared in accordance with 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the Acquisition had taken place on 30 June 2012.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is based upon the unaudited consolidated statement of financial position of the Group as at 30 June 2012, which has been extracted from the interim report of the Group for the six month ended 30 June 2012, the audited combined statement of financial position of the Target Group as at 31 August 2012 as extracted from the accountants' report as set out in Appendix III to this Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction and (ii) factually supportable.

The unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of cash flows of the Enlarged Group has been prepared in accordance with 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the Acquisition had taken place on 1 January 2011.

The unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of cash flows of the Enlarged Group are based upon the audited consolidated income statement and audited consolidated statement of cash flows of the Group for the year ended 31 December 2011, which have been extracted from the annual report of the Group for the year ended 31 December 2011, the audited combined income statement and audited combined statement of cash flows of the Target Group for the year ended 31 December 2011 as extracted from the accountants' report as set out in Appendix III to this Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction and (ii) factually supportable.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared by the directors of the Company based on a number of assumptions, estimates and uncertainties for illustrative purposes. Accordingly, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to describe (i) the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2012; (ii) the actual results of operations and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on 1 January 2011. The Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the future financial position, results of operations or cash flows of the Enlarged Group.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix II to this Circular, the financial information of Target Group as set out in Appendix III to this Circular, and other financial information included elsewhere in this Circular.

2. Unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 December 2011

	The Group's consolidated income statement for the year ended 31 December 2011	The Target Group's combined income statement for the year ended 31 December 2011	Sub-total	Pro-forma adjustments				The Enlarged Group's pro forma consolidated income statement for the year ended 31 December 2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
				(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	
Revenue	25,711	—	25,711					25,711
Cost of sales and services provided	(21,511)	—	(21,511)					(21,511)
Gross profit	4,200	—	4,200					4,200
Other income and gains	8,178	—	8,178					8,178
Impairment loss on exploration and evaluation assets	(160,829)	—	(160,829)					(160,829)
Distribution costs	(1,744)	—	(1,744)					(1,744)
General and administrative expenses	(34,685)	(88)	(34,773)			(2,000)		(36,773)
Other operating expenses	(68)	—	(68)					(68)
Finance costs	(58,250)	—	(58,250)				(3,796)	(62,046)
Loss before tax	(243,198)	(88)	(243,286)					(249,082)
Income tax expense	39,521	—	39,521					39,521
Loss for the year	(203,677)	(88)	(203,765)					(209,561)
Attributable to:								
Owners of the Company	(198,747)	(88)	(198,835)			(2,000)	(3,796)	(204,631)
Non-controlling interests	(4,930)	—	(4,930)					(4,930)
	(203,677)	(88)	(203,765)					(209,561)

3. Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2012

	The Group's consolidated statement of financial position as at 30 June 2012	The Target Group's combined statement of financial position as at 31 August 2012	Sub-total		Pro-forma adjustments			The Enlarged Group's pro forma consolidated statement of financial position as at 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
				(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	
NON-CURRENT ASSETS								
Property, plant and equipment	4,081	1,861	5,942					5,942
Exploration and evaluation assets	1,539,000	—	1,539,000					1,539,000
Intangible assets	3,400	—	3,400		3,548			6,948
Loan receivables	3,040	—	3,040					3,040
Deposit paid for the acquisition of a subsidiary	80,000	—	80,000					80,000
Investment in subsidiary	—	—	—	56,519	(56,519)			—
Available for sale investments	590	—	590					590
Deferred tax assets	40,207	—	40,207					40,207
Goodwill	—	—	—		39,120			39,120
Total non-current assets	1,670,318	1,861	1,672,179					1,714,847
CURRENT ASSETS								
Inventories	1,656	10,257	11,913					11,913
Loan receivables	23,634	—	23,634					23,634
Trade receivables	629	33,180	33,809					33,809
Prepayments, deposits and other receivables	4,628	223	4,851					4,851
Equity investments at fair value through profit or loss	22,367	—	22,367					22,367
Pledged bank deposits	6,012	—	6,012					6,012
Cash and bank balances	17,677	2,021	19,698					19,698
Total current assets	76,603	45,681	122,284					122,284
CURRENT LIABILITIES								
Bank overdrafts, secured	266	—	266					266
Trade payables	523	26,435	26,958					26,958
Other payables and accruals	27,124	4,317	31,441			2,000		33,441
Shareholder's loan owed by the Target Group	—	3,904	3,904		(3,904)			—
Tax payable	1,958	2,939	4,897					4,897
Total current liabilities	29,871	37,595	67,466					65,562
Net current assets	46,732	8,086	54,818					56,722
Total assets less current liabilities	1,717,050	9,947	1,726,997					1,771,569
NON-CURRENT LIABILITIES								
Convertible bonds	323,895	—	323,895					323,895
Promissory notes payable	—	—	—	56,519				56,519
Total non-current liabilities	323,895	—	323,895					380,414
Net assets	1,393,155	9,947	1,403,102					1,391,155

	The Group's consolidated statement of financial position as at 30 June 2012	The Target Group's combined statement of financial position as at 31 August 2012	Sub-total	Pro-forma adjustments				The Enlarged Group's pro forma consolidated statement of financial position as at 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
				(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	
EQUITY								
Equity attributable to owners of the Company								
Issued capital	486	—	486					486
Equity component of convertible bonds	112,551	—	112,551					112,551
Reserves	1,283,851	9,947	1,293,798		(9,947)	(2,000)		1,281,851
Total equity attributable to equity holders of the Company	1,396,888	9,947	1,406,835					1,394,888
Non-controlling interests	(3,733)	—	(3,733)					(3,733)
TOTAL EQUITY	1,393,155	9,947	1,403,102					1,391,155

4. Unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2011

	The Group's consolidated statement of cash flows for the year ended 31 December 2011	The Target Group's combined statement of cash flows for the year ended 31 December 2011	Sub-total		Pro-forma adjustments			The Enlarged Group's pro forma consolidated statement of cash flows for the year ended 31 December 2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
				(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	
Cash flows from operating activities								
Loss before tax	(243,198)	(88)	(243,286)			(2,000)	(3,796)	(249,082)
Adjustments for:								
Depreciation	484	—	484					484
Interest income	(60)	—	(60)					(60)
Interest expenses	95	—	95					95
Interest on convertible bonds	58,024	—	58,024					58,024
Interest on promissory note	—	—	—				3,796	3,796
Fair value gain on equity investments at fair value through profit or loss	(6,062)	—	(6,062)					(6,062)
Gain on disposal of property, plant and equipment	(255)	—	(255)					(255)
Loss on disposal of financial assets	116	—	116					116
Impairment on exploration and evaluation assets	160,829	—	160,829					160,829
Share-based payment	800	—	800					800
	(29,227)	(88)	(29,315)					(31,315)
Increase in trade and bills receivables, other receivables, prepayment and deposits	(6,593)	(7,255)	(13,848)					(13,848)
Increase in inventories	(446)	(3)	(449)					(449)
Increase/(decrease) in trade and bills payable, other payables and accruals	(7,148)	42	(7,106)			2,000		(5,106)
Increase in loan receivable	(20,974)	—	(20,974)					(20,974)
Effect of foreign exchange rate changes	13	—	13					13
Cash flow used in operations	(64,375)	(7,304)	(71,679)					(71,679)
Interest paid	(95)	—	(95)					(95)
Net cash flow used in operating activities	(64,470)	(7,304)	(71,774)					(71,774)
Cash flows from investing activities								
Interest received	60	—	60					60
Decreased in pledged bank deposits	(4,130)	—	(4,130)					(4,130)
Purchases of items of property, plant and equipment	(2,453)	(758)	(3,211)					(3,211)
Purchases of items of intangible assets	(4,000)	—	(4,000)					(4,000)
Purchases of exploration and evaluation assets	(813)	—	(813)					(813)
Acquisition of subsidiaries	(80,000)	—	(80,000)					(80,000)
Acquisition of equity security	(109,276)	—	(109,276)					(109,276)
Sales proceed on disposal of property, plant and equipment	414	—	414					414
Sales proceed on disposal of equity security	89,172	—	89,172					89,172
Net cash flow used in investing activities	(111,026)	(758)	(111,784)					(111,784)

	The Group's consolidated statement of cash flows for the year ended 31 December 2011	The Target Group's combined statement of cash flows for the year ended 31 December 2011	Sub-total	Pro-forma adjustments				The Enlarged Group's pro forma consolidated statement of cash flows for the year ended 31 December 2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
				(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	
Cash flows from financing activities								
Loan from a related company	—	5,296	5,296					5,296
Loan from a shareholder	—	3,140	3,140					3,140
Proceeds from issues of shares	36,935	—	36,935					36,935
Proceeds from rights issue	373,898	—	373,898					373,898
Redemption of convertible bonds	(320,000)	—	(320,000)					(320,000)
Interest paid for the promissory note	—	—	—				(2,400)	(2,400)
Interest paid upon redemption of convertible bonds	(15,073)	—	(15,073)					(15,073)
Net cash flow from financing activities	75,760	8,436	84,196					81,796
Net increase/(decrease) in cash and cash equivalents	(99,736)	374	(99,362)					(101,762)
Cash and cash equivalents at beginning of year	135,303	—	135,303					135,303
Effect of foreign exchange rate changes, net	145	7	152					152
Cash and cash equivalents at end of year	35,712	381	36,093					33,693
Analysis of balances of cash and cash equivalents:								
Cash and bank balances	35,979	381	36,360				(2,400)	33,960
Bank overdrafts, secured	(267)	—	(267)					(267)
Cash and cash equivalents as stated in the consolidated statement of cash flows	35,712	381	36,093					33,693

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) On 18 October 2012, the Group entered into a sale and purchase agreement with the vendor (the "Vendor"), pursuant to which, the Group acquired (i) 100% equity interest in the Target Group and (ii) Sale Loan, at a consideration of HK$60,000,000 (subject to adjustment of a profit guarantee as mentioned below) (the Consideration"), which is satisfied by way of the issue of 4 % promissory note (the "Promissory Note") and due on the third year from the date of issue of the Promissory Note or 31 March 2016, whichever is later (the "Maturity Date").

The Company was granted an early repayment right (the "PN Derivative") at its sole discretion to repay the Promissory Note at any time in full or in part of the principal amount of the Promissory Note. The Vendor has warranted and guaranteed to the Group that the audited consolidated net profit after tax (the "Audited CNPAT") of the Target Group for the period from 1 January 2012 to 31 December 2013, and for the years ending 31 December 2014 and 2015 will not be less than HK$15,000,000 (the "Guaranteed Amount"), respectively, for each year. The Consideration will be adjusted downward and with the principal amount of the Promissory Note be reduced according to the shortfall between the Audited CNPAT and the Guaranteed Amount in corresponding period. The maximum amount of adjustment to the Consideration for each period of shortfall between the Audited CNPAT and the Guaranteed Amount will be subject to HK$15,000,000. Any shortfall amount of the Guaranteed Amount for a period of the Guaranteed Amount will be set off against the principal amount of the Promissory Note with a cap of HK$15,000,000 for each period of the Guaranteed Amount. Upon the Target Group having achieved summation of the Guaranteed Amount, the Company may exercise the PN Derivative to redeem the Promissory Note prior to the Maturity Date in full or in part (together with accrued interest) at any time after the date of issue of the Promissory Note by giving not less than 7 days prior written notice to the holder(s) of the Promissory Note. The fair value of the (i) PN Derivative; (ii) the shortfall between the Audited CNPAT and the Guaranteed Amount; and (iii) the present value of the Promissory Note as at 30 June 2012 were HK$Nil, HK$Nil and HK$56,519,454, respectively, which was estimated by GA Valuation Limited (the "Valuers"), an independent valuer.

As at the date of this unaudited proforma financial information/as the Company do not have any intention to exercise the PN Derivative and the results of the Target Group will not be less than the Guaranteed Amount as estimated in the profits forecast, the Valuers are of the opinion that the fair value of the (i) PN Derivative; and (ii) the shortfall between the Audited CNPAT and the Guaranteed Amount are deemed to have no significant and commercial value.

Consideration is calculated as follows:

		HK$'000
The present value of the Promissory Note		56,519
Less:	(i) The fair value of the shortfall between the Audited CNPAT and the Guaranteed Amount	(—)
	(ii) The fair value of the PN Derivative	(—)
Total adjusted purchase consideration		56,519

(b) The adjustment reflects the elimination of the Group's investment in the Target Group and the recognition of an intangible asset of HK$3,548,249 (the "Intangible Asset"). Pursuant to the valuation report, the fair value of the Intangible Assets as at 30 June 2012 was HK$3,548,249 based on income approach, which were estimated by GA Valuation Limited, the independent valuer. The Intangible Asset represented a trademark in name of "Prado", at the date of this Circular, the application for the registration of trademark is still in progress.

The Acquisition of 100% equity interest in Target Group and the Sale Loan had taken place on 30 June 2012 and the reconciliation of the goodwill arising from the Acquisition is as follows:

		HK$'000
Total adjusted purchase adjusted consideration		56,519
Less:	Net assets value of Target Group as at 31 August 2012	(9,947)
	Sale Loan	(3,904)
	The fair value of the Intangible Asset	(3,548)
Goodwill		39,120

Upon completion of the Acquisition, the fair value of the identifiable assets and liabilities of the Target Group (including but not limited to the Intangible Assets) and the Promissory Note will have to be reassessed. As a result of the foregoing, the amount of goodwill may be different from that estimated as stated above for purpose of this Unaudited Pro Forma Financial Information and is subject to impairment review at the end of each reporting period.

(c) The adjustment reflects the estimated legal and professional fees and other direct expenses in relation to the Acquisition of approximately HK$2,000,000.

(d) The adjustment reflects the interest expenses of approximately HK$3,796,000 calculated by using effective interest rate method of the Promissory Note during the year ended 31 December 2011 and the actual interest paid of HK$2,400,000 calculated at coupon rate of 4% per annum, which is payable on the anniversary of the Promissory Note.

The following is the text of a letter prepared for inclusion in this circular, received from GA Valuation Limited, an independent business valuer, in connection with the business valuation for its valuation as at 31 August 2012 of the fair value of the Target Group.

GA VALUATION LIMITED
天基評估有限公司

14 December 2012

Bao Yuan Holdings Limited
25/F, Overseas Trust Bank Building
160 Gloucester Road
Wanchai, Hong Kong

Attn: The Board of Directors

Dear Sirs,

Re : The Fair Value of the Target Group (as Defined Hereinafter) of Chang Ye Holdings Limited and its Subsidiaries

In accordance with your instructions for us to carry out an appraisal of the fair value of the target group of Chang Ye Holdings Limited (hereinafter referred to as the "Business Enterprise") and its subsidiaries, China Household Furniture Holdings Limited (hereinafter referred to as "China Household Furniture") and 中山市普納度風尚家居有限公司 (Zhongshan City Prado Style Household Company Limited) (hereinafter referred to as "Zhongshan Prado", together with the Business Enterprise and China Household Furniture are collectively referred to as the "Target Group"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair value of the Target Group as at 31 August 2012 (hereinafter referred to as the "Valuation Date").

This report states the purpose of appraisal and scope of our works, identifies the business appraised, describes the basis and methodology of our appraisal, investigation and analysis, assumptions and limiting conditions, and presents our opinion of value.

1.0 PURPOSE OF APPRAISAL

GA Valuation Limited (hereinafter referred to as "GA Valuation") acknowledges that this report is being prepared solely for the use of the directors and management of Bao Yuan Holdings Limited (hereinafter referred to as the "Company"). The Company is a pubic company listed on the Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Stock Exchange").

This report is not to be used for any purpose other than that mentioned above, including issue to third parties, without our prior approval of the use, form and context in which it is released. GA Valuation assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

2.0 SCOPE OF WORK

Our appraisal conclusions are based on the assumptions stated herein and on information provided by the management of the Target Group or its representative (hereinafter referred to as the "Management"). In preparing this report, we have had discussions with the Management and the Company in relation to the development and prospects of the household solutions industry in the People's Republic of China (hereinafter referred to as the "PRC"), and the development, operations and other relevant information of the Target Group.

As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Target Group provided to us by the Management and the Company and have considered such information and data as attainable and reasonable. We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

We do not express an opinion as to whether the actual results of the business operation of the Target Group will approximate those projected because assumptions regarding future events by their nature are not capable of independent substantiation. In applying these projections to the appraisal of the fair value of the Target Group, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

3.0 ECONOMIC AND INDUSTRY OVERVIEW

3.1 Global Prospects

According to a recent report, *World Economic Outlook*, published in April 2012 by the International Monetary Fund (hereinafter referred to as the "IMF"), global prospects are gradually strengthening again after suffering a major setback during 2011, but downside risks remain elevated. Improved activity in the United States during the second half of 2011 and better policies in the euro area in response to its deepening economic crisis have reduced the threat of a sharp global slowdown.

Affirmed by a recent IMF update in July 2012, weak recovery will likely resume in the major advanced economies, and activity is expected to remain solid in most emerging and developing economies. Global growth is projected to drop from about 3.9 percent in 2011 to about 3.5 percent in 2012 because of weak activity in the last twelve months, mainly on account of the damage caused by deteriorating sovereign and banking sector developments in the euro area.

The IMF economists expect that the euro area will go into a mild recession in 2012 as a result of the sovereign debt crisis and a general loss of confidence, the effects of bank de-leveraging on the real economy, and the impact of fiscal consolidation in response to market pressure. The spillovers from the euro area crisis will severely affect the rest of Europe; other economies will likely experience further financial volatility but no major impact on activity unless the euro area crisis intensifies once again.

According to the July 2012 update, activity will continue to disappoint for the advanced economies as a group, expanding by only about 1.4 percent in 2012 and by 1.9 percent in 2013. Real gross domestic product ("GDP") growth in the emerging and developing economies is projected to slow from 6.2 percent in 2011 to 5.6 percent in 2012 but then to reaccelerate to 5.9 percent in 2013, helped by easier macroeconomic policies and strengthening foreign demand.

3.2 Historical Perspective of the PRC Economy

Historical data of GDP provided by the IMF World Economic Outlook Database (April 2012 edition) shows the development of the PRC economy (estimate for 2011) in United States Dollars ("USD") in Chart 3.1 follows.

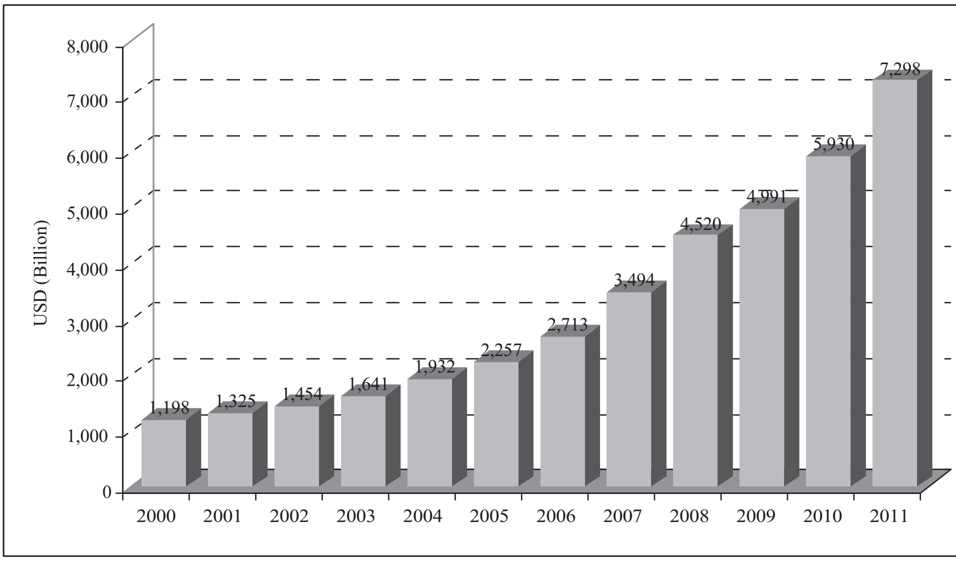


Chart 3.1 – GDP (Current Prices) for the PRC

3.3 Asia Pacific Prospects

Much weaker external demand has dimmed the outlook for Asia. But resilient domestic demand in the PRC, limited financial spillovers, room for policy easing, and the capacity of Asian banks to step in as European banks de-leverage suggest that the soft landing under way is likely to continue. Activity across Asia slowed during the last quarter of 2011, reflecting both external and domestic developments.

The effect of spillovers from Europe can be seen in the weakness of Asia's exports. In some economies, such as India, domestic factors also contributed to the slowdown, as a deterioration in business sentiment weakened investment and policy tightening raised borrowing costs. The historic floods that hit Thailand significantly curtailed their growth in the last quarter of 2011, shaving 2 percentage points off the annual growth, and led to negative spillovers on regional economies.

In some other Asian economies, however, robust domestic demand helped offset the drag on growth of slowing exports. Investment and private consumption remained strong in the PRC, buoyed by solid corporate profits and rising household income. Moreover, the rebound from the supply chain disruptions caused by the Japanese earthquake and tsunami was stronger than anticipated.

The following table summarized the GDP growth for countries in the region as estimated by the IMF World Economic Outlook Database (April 2012 edition). It is expected that growth in the PRC will remain strong and steady in the range of 9 to 10 percent per annum.

Country	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Australia	19.51	6.57	4.13	3.52	3.70	3.40	5.40
Hong Kong	8.53	7.06	7.11	7.46	7.47	7.41	7.38
India	4.89	6.15	10.25	10.29	10.21	10.25	10.56
Indonesia	19.39	9.77	13.65	15.11	14.80	14.26	13.73
Japan	6.94	1.90	1.33	2.42	2.65	2.49	2.52
Korea	9.99	4.24	6.84	7.26	7.25	7.24	7.26
Malaysia	17.19	9.74	7.84	8.15	8.15	8.15	8.15
New Zealand	14.96	11.55	4.02	2.79	3.14	2.56	4.47
Philippines	6.78	6.78	6.76	7.14	7.23	7.34	7.44
PRC	23.06	9.50	9.83	9.85	9.74	9.62	9.61
Singapore	14.28	3.91	4.32	4.52	4.52	4.55	4.48
Taiwan	8.52	2.92	8.18	8.25	8.33	8.54	8.38
Thailand	8.39	9.12	10.11	6.28	6.01	5.63	5.73
Vietnam	18.49	10.34	9.24	9.19	8.60	8.39	8.46

3.4 Domestic Consumption of the PRC Economy

The PRC is striving to shift its economy toward self sustaining growth based on domestic consumption, as a contracting European economy and weak recovery in the United States have slowed its exports to these economies. According to the IMF World Economic Outlook Database (April 2012 edition), the chart below shows the GDP per capita for the PRC from 1980 and looks into next 5 years.

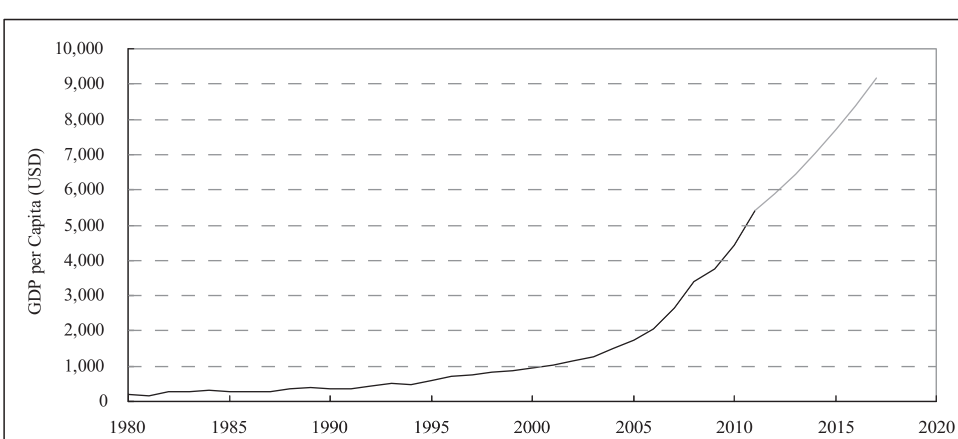


Chart 3.2 – GDP per Capita (Current Prices) for the PRC

Data from the National Bureau of Statistics (hereinafter referred to as the "NBS") showed the economy grew 7.60 percent in the second quarter from a year ago, its slowest pace in three years, with weaker overseas trade and a cooling property sector causing the slowdown. Analysts believe that new sources of growth are showing potential to drive up domestic spending at a time when the economy sorely needs a boost.

People's Daily also reported a recent survey covered 951 women aged 18 to 60 living in 10 cities including Beijing, Shanghai and Dalian revealed that more than 60 percent of the average household income went into consumption in 2011, six percentage points more than in 2010. Another 26 percent went into the bank, while 13 percent was invested in a variety of assets and financial products.

3.5 Household Solutions Industry in the PRC

Along with the growth of the PRC economy and the rising disposable income of the PRC consumers, living standard of the PRC consumers has generally improved. Therefore, it is expected that there will be more home renovation, decoration and upgrade activities in the PRC with replacement of old household products with new products of better style, design and quality.

In addition, there is a growing popularity of household decoration which reflects individual's taste and personal style. Functionality of the household products is not the only consideration in the selection process, style and design of products which reflect individual's unique tastes and lifestyle are becoming a significant consideration as well.

This trend in the PRC household products market will in turn drive the demand for total household solutions which will save customers' time and cost in obtaining stylish and personalized household decoration design services and construction works. In this connection, the prospect of PRC total household solutions is promising.

4.0 THE TARGET GROUP

4.1 Background

The Business Enterprise is a private company incorporated in the British Virgin Islands on 10 August 2012 with limited liabilities. It is principally engaged in investment holding, through its wholly owned subsidiary, China Household Furniture, a private company (registration number 1498139) incorporated in Hong Kong on 26 August 2010 with limited liabilities, owned the entire issued share capital of its principal operating company, Zhongshan Prado.

4.2 Brief History

Zhongshan Prado, formerly known as 中山市綠洲家居有限公司 (Zhongshan City Oasis Household Company Limited) is a wholly foreign owned enterprise (registration number 442000400039211) established on 30 September 2011 in the PRC. Zhongshan Prado adopted its current name on 8 May 2012 and is the principal operating company of the Target Group.

4.3 Scope of Business

In early 2012, Zhongshan Prado began to engage in the trading of wooden home furnishing products in the PRC and provision of one stop home furnishing solution.

Along with the trading business, Zhongshan Prado is gradually developing into a total household solutions provider in the PRC which involves formulation of overall plans for property owners and builders. Zhongshan Prado will provide one stop comprehensive home furnishing solutions covering various aspects, namely provision of interior design services, co-ordination of the home fitting out works and sourcing of home decor materials and items.

The one stop solution provided by Zhongshan Prado will encompass (i) overall planning of home furnishing interior design covering home structure, functional design and planning of line, colour and space in the design concept; (ii) comprehensive co-ordination in home fitting out works; and (iii) the overall arrangement and sourcing of decorative materials, home electrical appliances, lighting products, sanitary ware, kitchen cabinets, furniture and other home furnishing products. Zhongshan Prado targets at high end market which differentiates itself from other competitors by offering tailor made, stylish and personalized home furnishing solutions according to customer preferences, tastes and requirements.

5.0 DEFINITION OF APPRAISAL

We have appraised the Target Group on the basis of fair value. Fair value as used herein is defined as "the estimated amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

6.0 INVESTIGATION AND ANALYSIS

Our investigation included discussions with members of the management of the Target Group in relation to the development and prospects of the household solutions industry in the PRC, and the development, operations and other relevant information of the Target Group. In addition, we have made relevant inquiries and obtained such further information, statistical figures regarding the industry from external public sources, as we consider necessary for the purpose of this appraisal.

As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Target Group provided to us by the Management and the Company and have considered such information and data as attainable and reasonable. We have also consulted other sources of financial and business information. The appraisal of an interest in the Target Group requires consideration of all pertinent factors, which may or may not affect the operation of the business and its ability to generate future investment returns. The factors considered in this appraisal include, but not necessarily limited to, the following:

- The nature and prospect of the Target Group.

- The financial condition of the Target Group.

- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market.

- Renewal of relevant leases, licenses and agreements.

- The business risk of the Target Group such as the ability in maintaining competent technical and professional personnel.

- Investment returns and market transactions of entities engaged in similar lines of business.

7.0 GENERAL APPRAISAL APPROACHES

There are three generally accepted approaches to obtain the fair value of the Target Group, namely, the Market-Based Approach, the Asset-Based Approach and the Income-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted in valuing business entities that is similar in nature.

7.1 Market-Based Approach

It values a business entity by comparison of the prices at which other similar business nature companies or interests changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication from the prices of other similar companies or equity interests in companies that were sold recently.

The right transactions employed in analyzing for indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell. The derived multiples (most commonly used are: price to earnings, price to revenues and price to book multiples) based on analyses of those transactions are then to be applied to the fundamental financial variables of the subject business entity and to arrive at an indicated value of it.

7.2 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital (equity and long term debt). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed. This money comes from investors who buy stocks of the business entity (equity) and investors who lend money to the business entity (debt).

After collecting the total amounts of money from equity and debt providers, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity. From a valuation perspective, the valuer will restate the values of all types of assets of a business entity from book value, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, the valuer can identify the indicated value of the business entity, or, by applying the accounting principle "assets minus liabilities", arrive at the value of the equity interests of the business entity.

7.3 Income-Based Approach

The Income-Based Approach focuses on the economic benefits generated by the income producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits. Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

8.0 APPRAISALS APPROACHES FOR THE TARGET GROUP

In the process of valuing the Target Group, we have taken into account of the uniqueness of its operation, the industry it is participating, availability of information and market data, and thus Market-Based Approach is not applicable in this case. The Asset-Based Approach is also not applicable in this case since the Target Group is at the startup stage. We have therefore adopted the Income-Based Approach to arrive at the fair value of the Target Group.

8.1 Market Comparables

We have searched suitable market comparables (hereinafter referred to as the "Comparables") on a best effort basis and identified Comparables listed in the following table, which are the closest proxies to the Target Group with similar industry focus, risk and return nature. Details of the Comparables are summarized below.

Company Name	Stock Code	Equity Beta
Guangdong Yihua Timber Industry Co Ltd	600978 CH	0.466
Markor International Furniture Co Ltd	600337 CH	0.569
Suofeiya Home Collection Co Ltd	002572 CH	0.451
Average		0.495

8.2 Discount Rate

We further retrieved 10 years market return and risk free interest rate from Bloomberg, which are 13.44 percent and 0.667 percent respectively as at the Valuation Date, hence, determined a market premium 12.773 percent. In accordance with the capital asset pricing model ("CAPM"), we have estimated the cost of equity finance to be 6.99 percent with reference to the average equity beta of 0.495 for the Comparables.

We have therefore determined a discount rate of 29.46 percent (hereinafter referred to as the "Discount Rate") by adopting a size premium of 11.77 percent according to Ibbotson Valuation Yearbook 2012, a country risk premium of 2.705 percent, a business and startup risk premium of 8.00 percent.

8.3 Discounted Cash Flow

Discounted cash flow computation is shown as below.

Years ended 31 December	Free Cash Flow	PV Factor	Present Values
	(HKD'000)	(@ 29.46%)	*(HKD'000)*
2012 (from September)	5,076	0.918	4,660
2013	11,555	0.709	8,192
2014	18,202	0.547	9,956
2015	22,499	0.423	9,517
2016	22,710	0.327	7,426
2017	26,736	0.253	6,764
Continuing Value	105,933	0.253	26,801
Fair Value before Marketability Discount			73,316
Less: Discount for Lack of Marketability ("DLOM")			(13,271)
Cash and Bank Balances			2,021
Fair Value as at the Valuation Date			62,066

8.4 The Fair Value

According to the above discounted cash flow, the fair value of the Target Group is therefore determined to be approximately HKD 62 million as of the Valuation Date after applying a DLOM of 18.10 percent as a private company according to the expected total net income, which is considered fair and reasonable on the basis of a research conducted by Bruce Johnson published in the Business Valuation Review (December 1999) pp.152-155, in the absence of other rigorous findings supported by a recent research.

The research studied 72 private placements and analyzed four factors that might influence the DLOM, namely, (1) net income margin, (2) total net income, (3) total sales, and (4) transaction size. Average DLOM observed for each of these factors applicable to the Target Group are 11.60 percent, 18.10 percent, 19.40 percent and 17.00 percent respectively.

8.5 Sensitivity Analysis

Key parameters in the valuation model are the Discount Rate adopted and the DLOM applied. A sensitivity analysis of the fair value on these two parameters is appended below.

	DLOM			
Discount Rate	**11.60%**	**17.00%**	**18.10%**	**19.40%**
	(HKD'000)	*(HKD'000)*	*(HKD'000)*	*(HKD'000)*
27.46%	72,940	68,608	67,725	66,682
28.46%	69,670	65,538	64,696	63,701
29.46%	66,832	62,873	62,066	61,113
30.46%	64,152	60,357	59,584	58,670
31.46%	61,613	57,973	57,231	56,355

9.0 APPRAISAL ASSUMPTIONS

We have adopted certain specific assumptions in this appraisal and the major ones are as follows:

- The financial projections provided are reasonable, reflecting market conditions and economic fundamentals.

- The financial projections provided will be materialized.

- There will be sufficient supply of technical staff in the industry in which the Target Group operates.

- The Target Group will retain competent management, key personnel and technical staff to support its ongoing operations and developments.

- Interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing.

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Group operates or intends to operate would be officially obtained, and renewed upon expiry.

- There will be no major changes in the current taxation laws in the localities in which the Target Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with.

- There will be no major changes in the political, legal, economic or financial conditions in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Group.

10.0 LIMITING CONDITIONS

Our conclusion of the fair value is derived from generally accepted appraisal procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. This appraisal reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others which have been used in formulating this analysis, are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided by the Management and the Company in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

Save as and except for the purpose stated above, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear. In accordance with our standard practice, we must state that this report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated above.

We assume no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely on their own risk.

11.0 REMARKS

Unless otherwise stated, all monetary amounts stated in this appraisal report are in Hong Kong Dollars ("HKD"). We hereby confirm that we have no present interests in the Company, the Target Group, or the values reported herein.

12.0 OPINION OF VALUES

Based on the investigation and analysis stated above and on the appraisal methods employed, we are of the opinion that the fair value of the Target Group as at 31 August 2012 is in the sum of **HKD62,000,000 (HONG KONG DOLLARS SIXTY TWO MILLION ONLY)**.

Yours faithfully,
For and on behalf of
GA Valuation Limited
Teddy Iu
FCMA, CGMA, FCPA
Head, Business Valuation

A. LETTER FROM THE FINANCIAL ADVISER

富强金融資本有限公司
FORTUNE FINANCIAL CAPITAL LIMITED

The Board of Directors
Bao Yuan Holdings Limited
25/F, Overseas Trust Bank Building
160 Gloucester Road
Wanchai, Hong Kong

14 December 2012

Dear Sirs,

We refer to the circular of Bao Yuan Holdings Limited (the "**Company**") dated 14 December 2012 in relation to the Acquisition which constitutes a very substantial acquisition under the Listing Rules (the "**Circular**"). Unless otherwise defined or if the context otherwise requires, all terms defined in the Circular shall have the same meaning when used in this letter.

Fortune Financial Capital Limited ("**FFC**") hereby confirms that it has reviewed and discussed with the Company, the bases and assumptions adopted in the profit forecast prepared by GA Valuation Limited, the independent valuer of the Company (the "**Independent Valuer**") in the course of their work, and has satisfied itself that the bases and assumptions have been made with due care and objectivity, and on a reasonable basis and that the profit forecast has been made by the Directors after due and careful enquiry.

We have not independently verified the computations leading to the Independent Valuer's determination of the fair value and market value of the Target Group. We have had no role or involvement and have not provided and will not provide any assessment of the fair value and market value of the Target Group. Accordingly, save as expressly stated in this letter, we take no responsibility for and express no views, whether expressly or implicitly, on the fair value and market value of the Target Group as determined by the Independent Valuer and set out in the valuation report issued by the Independent Valuer or otherwise.

FFC further confirms that the assessment, review and discussion carried out by it as described above are primarily based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter and that it has, in arriving at its views, relied on information and materials supplied to it by the Independent Valuer, the Group and the Target Group and opinions expressed by, and representations of, the employees and/or management of the Independent Valuer, the Group and Target Group. We have assumed that all information, materials and representations so supplied, including all information, materials and representations referred to or contained in the Circular, for which the Directors are wholly responsible, were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Circular and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by FFC on the accuracy, truth or completeness of such information, materials, opinions and/or representations. Circumstances could have developed or could develop in the future that, if known to FFC at the time of this letter, would have altered our respective assessment and review. Further, while the qualifications, bases and assumptions adopted by the Independent Valuer are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and the Independent Valuer.

FFC is acting as financial adviser to the Company in reviewing the forecast on the valuation of the Target Group and will receive fees for such advice. FFC and its directors and affiliates will, neither jointly or severally, be responsible to anyone other than the Company for providing advice in connection with the review of the forecast on the valuation of the Target Group, nor will FFC, its directors or affiliates, whether jointly or severally, owe any responsibility to anyone other than the Company.

Nothing in this letter should be construed as an opinion or view as to the fair value, market value or any other value of the Target Group or as an opinion or recommendation to any person as to whether they should acquire Shares or as to how to vote on the Acquisition, the Sale and Purchase Agreement, or other incidental or ancillary documents. Shareholders are recommended to read the Circular with care.

A copy of this letter in its entirety may be reproduced in the Circular on the basis that none of the Company, the Independent Valuer or any other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner without our prior written consent. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

Yours faithfully,
Fortune Financial Capital Limited

B. LETTER FROM THE AUDITORS

Ascenda CACHET
天健德揚

BaoYuan Holdings Limited
25/F., Overseas Trust Bank Building,
160 Gloucester Road
Wanchai, Hong Kong
The Directors

14 December 2012

Dear Sirs,

We refer to the valuation report dated 14 December 2012 (the "**Valuation Report**") prepared by GA Valuation Limited (the "**Valuers**") on the fair value (the "**Valuation**") of (i) Chang Ye Holdings Limited (the "**Target Company**"); and (ii) its subsidiaries, China Household Furniture Holdings Limited and Zhongshan City Prado Style Household Company Limited (collectively, the "**Target Group**") as at the date of the Valuation on 31 August 2012 in relation to the acquisition of (i) the 100% equity interest in the Target Group and (ii) the shareholders' loans owed by the Target Group by a wholly-owned subsidiary of Bao Yuan Holdings Limited (the "**Company**", together with its subsidiaries, collectively the "**Group**"). The Valuation Report of the Target Group is included in Appendix V to the circular dated 14 December 2012 (the "**Circular**") issued by the Company.

The Valuation, including the bases and assumptions as set out in the Valuation Report, for which the directors (the "**Directors**") of the Company and of the Target Company and, the Valuers are responsible, has been prepared by the valuation approach known as the discounted cash flow analysis. Pursuant to paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any valuation of assets (except for property interests) or businesses acquired by a listed issuer based on discounted cash flows or projections of profits, earnings or cash flows is regarded as a profit forecast adopted for the purpose of preparing the Valuation. The profit projection of the Target Group (the "**Profit Forecast**") has been prepared by the Target Company's and reviewed by Company's Directors using a set of assumptions that include hypothetical assumptions about future events and other assumptions that may or may not necessarily be expected to occur.

Even if the events anticipated under the hypothetical assumptions occur, actual results are still likely to be different from the Profit Forecast since the other anticipated events may or may not occur as expected.

Consequently, readers are cautioned that the Profit Forecast may not be appropriate for purposes other than for deriving the Valuation of the Target Group as at 31 August 2012.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" with reference to the procedures under Auditing Guideline 3.341 "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants. Our work was performed solely to assist the Directors to evaluate whether the Profit Forecast was complied properly so far as the accounting policies that have been used and the related calculations are concerned. We have reviewed the calculation of the Profit Forecast, the accounting policies underlying the Profit Forecast with the accounting policies adopted by Group. We reviewed and found that the accounting policies are consistent with those accounting policies adopted by the Group.

In our opinion, the Profit Forecast, so far as the calculations are concerned, has been properly compiled in accordance with bases and assumptions adopted by the Directors in preparing the Profit Forecast and is presented on a basis consistent in all material respects, with the accounting policies adopted by the Group.

This letter is provided solely for your information. Therefore you cannot, without our prior written consent, refer to or use our name or the letter for any other purpose, refer to them in any documents, or make them available or communicate them to any other party, save as required by the regulatory authorities including but not limited to The Stock Exchange of Hong Kong Limited from time to time. In performing our duties in the subject matter, subject to the industry standards of which we are a member, we accept no liability to any other party who is shown or gains access to this letter.

Yours faithfully,

Ascenda Cachet CPA Limited
Certified Public Accountants

Chan Yuk Tong
Practicing Certificate Number P03723
Hong Kong

寶源控股有限公司
Bao Yuan Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock code: 692)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT a special general meeting (the "**SGM**") of Bao Yuan Holdings Limited (the "**Company**") will be held at The City Garden Hotel, 9 City Garden Road, Hong Kong, on Thursday, 3 January 2013 at 9:00 a.m. for the purpose of considering, and if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company (unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 14 December 2012 (the "**Circular**")):

ORDINARY RESOLUTION

"THAT:

(a) the Sale and Purchase Agreement, a copy of each of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for identification purpose, in relation to the Acquisition at a total consideration of HK$60,000,000 and all transactions contemplated thereunder including but not limited to the issue of Promissory Note by the Company to the Vendor (or its nominee) in the principal amount of HK$60,000,000 pursuant to the terms and conditions of the Promissory Note as attached to the Sale and Purchase Agreement be and are hereby approved, confirmed and ratified in all respects; and

(b) any one Director be and is hereby authorised for and on behalf of the Company to execute and to affix the common seal of the Company (if necessary) on all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary, desirable or expedient for the purpose of and in connection with the implementation of the

Sale and Purchase Agreement and the transactions contemplated thereunder and to agree to such variations of the terms of the Sale and Purchase Agreement and the transaction documents contemplated thereunder as he/she may in his/her absolute discretion consider necessary, desirable or expedient."

By Order of the Board
Bao Yuan Holdings Limited
Wong Man Pan
Executive Director

Hong Kong, 14 December 2012

Notes:

(a) A form of proxy for use at the meeting is enclosed herewith.

(b) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.

(c) Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one, or if he is the holder of two or more shares, more than one, proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.

(d) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.

(e) Completion and delivery of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.

(f) Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.

(g) As required under Rule 13.39 of the Listing Rules, the ordinary resolution will be decided by way of poll.