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CHINA BOON HOLDINGS LIMITED

中福控股發展有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00922)

VERY SUBSTANTIAL ACQUISITION CONNECTED TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee



金融有限公司
OCTAL Capital Limited

A letter from the Board is set out on pages 6 to 33 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 34 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 76 of this circular.

A notice convening a special general meeting of the Company to be held at Room 2118, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong on Friday, 28 December 2012 at 11:00 a.m. is set out on pages 281 to 282 of this circular.

Whether or not you are able to attend the special general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar in Hong Kong, Tricor Abacus Ltd. at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

* for identification purposes only

CONTENTS

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

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DEFINITIONS

In this circular, the following terms and expressions shall have the following meanings unless the context otherwise requires:

“Acquisition”	the sale and purchase of the Sale Share contemplated under the Agreement
“Agreement”	the sale and purchase agreement dated 18 September 2012 entered into between the Company, the Purchaser as purchaser, the Vendor as vendor and Mr. Shi as guarantor for the acquisition of 47.38% of the Project Company at a total consideration of HK\$430,000,000, which will be satisfied partly by cash and partly by the Company’s issue of the Promissory Note and the Convertible Notes to the Vendor
“Anxian Hong Kong”	Anxian Yuan (HK) Limited (安賢園(香港)有限公司), a company incorporated under the laws of Hong Kong and the entire issued share capital of which is held by the Purchaser as at the date of the Agreement
“associates”	has the meaning given to that term in the Listing Rules
“Board”	the board of Directors
“BVI”	British Virgin Islands
“Company”	China Boon Holdings Limited, a company incorporated under the laws of Bermuda with limited liability and the shares of which are listed on the Stock Exchange (stock code: 00922)
“Completion”	actual completion of the sale and purchase of the Sale Share in accordance with the Agreement
“Connected Person(s)”	has the meaning given to that term in the Listing Rules
“Conversion Shares”	those Shares to be converted upon conversion of the conversion rights attached to the Convertible Notes at the conversion price of HK\$0.10 per Share (subject to adjustment)

DEFINITIONS

“Convertible Notes”	the convertible notes in registered form comprising a total principal amount of HK\$330,000,000 to be issued by the Company to the Vendor on the date of Completion
“Director(s)”	director(s) of the Company
“Enlarged Group”	the Company and its subsidiaries after the Acquisition
“Group”	the Company and its subsidiaries
“Hirise”	Hirise Corporation Limited (鴻漢有限公司), a company incorporated under the laws of Hong Kong and wholly-owned by the Target Company
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising Mr. Fu Xiao Dong, Ms. Lau Siu Ngor and Ms. Tang Yan, all being independent non-executive Directors of the Company, established to advise the Independent Shareholders in respect of the Acquisition
“Independent Financial Adviser”	Octal Capital Limited, a corporation licensed to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as stipulated in the SFO, being appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“Independent Shareholders”	Shareholders other than the Vendor, Mr. Shi and their respective associates
“Independent Third Party(ies)”	(a) party(ies) who is/are not connected person(s) (as defined in the Listing Rules) of the Company and who together with its/their ultimate beneficial owner(s) are independent of the Company and of connected persons (as defined in the Listing Rules) of the Company

DEFINITIONS

“Last Trading Day”	17 September 2012, being the last trading day prior to the signing of the Agreement
“Latest Practicable Date”	23 November 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the day falling on the fifth (5th) anniversary of the date of issue of the Convertible Notes
“Mr. Shi”	Mr. Shi Hua (施華), is the ultimate controlling shareholder of the Vendor, who is also the chairman, chief executive officer, executive director and shareholder of the Company
“Percentage Ratios”	the “percentage ratios” as defined in rule 14.04(9) of the Listing Rules
“PRC”	People’s Republic of China
“Previous Acquisition”	the acquisition of 51% of the entire equity interest of the Project Company by the Group pursuant to an agreement on 18 June 2010, completion of which took place on 19 November 2010
“Project Company”	浙江安賢陵園有限責任公司 (in English, for identification purpose, Zhejiang Anxian Yuan Company Limited), a limited liability company established under the laws of the PRC
“Project Land”	the parcels of land located at Shuihongmiao Cun, Congxian Town, Yu Hang District, Hangzhou, Zhejiang, the PRC (中國浙江杭州余杭區崇賢鎮水洪廟村) and legally and beneficially owned by the Project Company for conducting the Project Company’s cemetery services

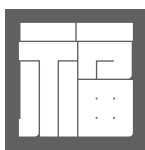
DEFINITIONS

“Promissory Note”	promissory note with principal amount of HK\$50,000,000 to be issued by the Company with 36 months maturity from the date of issue of the promissory note at 2% per annum simple interest as part of the consideration for the Acquisition under the Agreement
“Purchaser”	Sino Grandeur Limited, a company incorporated under the laws of the BVI and a wholly-owned subsidiary of the Company
“Sale Share”	one (1) ordinary share of the Target Company representing the entire issued share capital of the Target Company immediately before completion of the Acquisition, which is legally and beneficially owned by the Vendor
“SGM”	special general meeting of the Company to be convened to approve, inter alia, the Agreement and the transactions contemplated thereunder and the issue of the Promissory Note and the Convertible Notes
“Share(s)”	ordinary share(s) of HK\$0.10 each in the existing issued share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Jia Yuan Trading Limited (佳源貿易有限公司), a company incorporated under the laws of the BVI and the entire issued share capital of which is held by the Vendor as at the date of the Agreement
“Target Group”	as at the date of the Agreement, the Target Group consists of the Target Company, Hirise and the Project Company
“Vendor”	Master Point Overseas Limited, a company incorporated under the laws of the BVI and the entire issued share capital of which is held by Mr. Shi

DEFINITIONS

“Zhejiang Fu An”	浙江富安移民經濟開發有限公司 (in English, for identification purpose only, Zhejiang Fu An Immigration Economic Development Company Limited), a limited liability company incorporated under the laws of the PRC and a shareholder of the Project Company holding 1.62% of the equity interest in the Project Company as at the date of the Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD



CHINA BOON HOLDINGS LIMITED

中福控股發展有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00922)

Executive Directors

Mr. Shi Hua (*chairman and chief executive officer*)
Mr. Law Fei Shing
Mr. Shi Jun
Ms. Shen Mingzhen

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Non-executive Directors

Dr. Qi Xing Gang
Mr. Yu Ping

*Principal place of business
in Hong Kong*

Room 2118
Leighton Centre
77 Leighton Road
Causeway Bay, Hong Kong

Independent non-executive Directors

Ms. Tang Yan
Ms. Lau Siu Ngor
Mr. Fu Xiao Dong

28 November 2012

To the Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION CONNECTED TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 4 October 2012 announcing that on 18 September 2012, the Purchaser entered into the Agreement with the Vendor, pursuant to which the Company conditionally agreed to acquire from the Vendor the Sale Share at a total consideration of HK\$430,000,000 which will be satisfied partly by cash and partly by the Company's issue of the Promissory Note and the Convertible Notes.

* for identification purposes only

LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with, among other things, further information about the Acquisition and the issue of the Promissory Note and the Convertible Notes as detailed below, the letter of advice from the Independent Board Committee to the Independent Shareholders, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, other information as required under the Listing Rules, the notice of the SGM for considering and, if thought fit, approving at the SGM, among other things, the Agreement and the transactions contemplated thereunder and the issue and allotment of the Conversion Shares upon conversion of the Convertible Notes.

THE AGREEMENT

Date 18 September 2012

Parties to the Agreement

1. The Company as issuer.
2. The Purchaser as purchaser. The Purchaser is an investment holding company which is wholly-owned by the Company as at the Latest Practicable Date.
3. The Vendor as vendor. The Vendor is an investment holding company legally and beneficially owned by Mr. Shi, the chairman, chief executive officer, executive director and shareholder of the Company, and thereby a Connected Person of the Company.
4. Mr. Shi as the Vendor's guarantor to guarantee the performance by the Vendor of all its obligations under the Agreement.

Assets to be acquired

The Sale Share will comprise one issued share of the Target Company held by the Vendor which represents the entire issued share capital of the Target Company.

The Target Company is an investment holding company which is wholly-owned by the Vendor as at the Latest Practicable Date and which, through Hirise, hold 47.38% equity interest in the Project Company.

LETTER FROM THE BOARD

Consideration

The total consideration for the Sale Share under the Acquisition is HK\$430,000,000 which will be satisfied in the following manner:

- (a) as to HK\$40,000,000, will be paid in cash within three days from the execution of the Agreement as refundable deposit;
- (b) upon completion of the Agreement:
 - (i) as to HK\$10,000,000 will be paid in cash;
 - (ii) as to HK\$50,000,000 by the Company's issue of the Promissory Note to the Vendor; and
 - (iii) as to HK\$330,000,000 by the Company's issue of the Convertible Notes to the Vendor.

The cash portion of the consideration will be funded by the internal resources of the Group. A sum of HK\$40,000,000 was paid to the Vendor on 21 September 2012 as refundable deposit and the remaining HK\$10,000,000 will be paid to the Vendor upon completion of the Agreement. Based on the management report of the Group, as at 28 September 2012, the Group had cash balance of approximately HK\$19,600,000 which is sufficient to fund the remaining HK\$10,000,000 cash portion of the consideration under the Agreement.

The consideration for the Acquisition was arrived at based on normal commercial terms after arm's length negotiations between the parties to the Agreement and by reference to (a) the preliminary valuation of the business of the Project Company prepared by a PRC valuation company of RMB840,000,000 (equivalent to approximately HK\$1,028,000,000) as at 30 June 2012, as provided by the Vendor; (b) the total amount of consideration payable by the Group under the Previous Acquisition; (c) the expected costs and expenses for the Acquisition; and (d) other factors set out in the paragraph headed "Reasons for Entering into the Agreement" below.

LETTER FROM THE BOARD

Based on the information provided by the Vendor, the responsible valuer of the PRC valuation company who signed off the preliminary valuation report has been a registered asset valuation person under the relevant PRC regulations since June 2007 and has experience in asset valuation, property valuation and land valuation, and the valuation methodology adopted by the PRC valuation company in preparing the valuation of the business of the Project Company was the asset-based approach which utilises cost approach, market approach and residual method in assessing and calculating all the assets and liabilities of the subject company, in order to ascertain the price of the owner's interest in the subject company. When determining the consideration under the Acquisition, although the Company has initially relied on the preliminary valuation, completion of the Agreement is conditional on the value of the business of the Project Company as stated in a valuation report to be issued by an independent valuer engaged by the Company.

LCH (Asia-Pacific) Surveyors Limited, the Company's valuer, valued the cemetery business as part of a going concern business of the Project Company by using the net present value technique. The aim of this technique is to estimate the current value of the Project Company by discounting its future economic benefit. Whereas the PRC valuer has applied the asset-based approach to estimate the equity value of the Project Company, and the aim of this approach is to estimate its current value by valuing all the assets and liabilities individually, and its business value should be the sum of it.

The consideration of HK\$430,000,000 under the Agreement is equivalent to approximately 47.38% (being the equity interest of the Project Company to be acquired by the Group under the Agreement) of RMB750,000,000, the expected valuation of the Project Company. The Directors noted the difference in the valuation amounts provided by the PRC valuer and LCH (Asia-Pacific) Surveyors Limited and, when assessing the fairness and reasonableness of the consideration, have decided to adopt the valuation provided by LCH (Asia-Pacific) Surveyors Limited, a valuer of international repute which is based on commonly acceptable valuation standards.

Based on all the factors mentioned above and, in particular, the value of the business of the Project Company of not less than RMB750,000,000, the consideration for the Acquisition payable by the Group under the Agreement is considered by the Board as fair and reasonable and in the interests of the Group and of the Shareholders as a whole.

LETTER FROM THE BOARD

The Convertible Notes will be converted at the initial conversion price of HK\$0.10 per Conversion Share which was determined based on arm's length negotiations between the Company and the Vendor with reference to the recent trading prices of the Shares. The initial conversion price of HK\$0.10 per Conversion Share represents (a) a premium of approximately 11.11% to the closing price of HK\$0.090 per Share as quoted on the Stock Exchange on the Last Trading Day; (b) a premium of approximately 9.41% to the average closing price of approximately HK\$0.0914 per Share for the last five consecutive trading days up to and including the Last Trading Day; and (c) a discount of approximately 18.7% of the net asset value (attributable to the owners of the Company) per Share as at 31 March 2012 of HK\$0.123.

Particulars of the Promissory Note and Convertible Notes are set out in the paragraphs headed "Promissory Note" and "Convertible Notes" below.

Condition precedents

Completion of the Agreement is subject to the fulfillment of, inter alia, the following condition precedents:

- (a) the Company having completed the due diligence investigation on the legal, financial and business aspects of the Target Group in relation to its structure, assets, liabilities, business and prospect and, with the Company's absolute discretion, is satisfied with the results of the due diligence investigation;
- (b) the Company, having convened a special general meeting at which resolutions shall have been duly passed by the Independent Shareholders to approve the Agreement and the transactions contemplated thereunder (including without limitation to the allotment and issue of the Conversion Shares);
- (c) (if necessary) the Bermuda Monetary Authority granting its permission to the allotment and issue of the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Notes;
- (d) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of and permission to deal in the Conversion Shares which may be issued upon the exercise of the conversion rights attaching to the Convertible Notes;

LETTER FROM THE BOARD

- (e) the Purchaser having received from the Vendor a legal opinion (in substance and form satisfactory to the Purchaser) issued by a firm of lawyers qualified to practice law in the PRC acceptable to the Purchaser confirming that, among other things, (i) 47.38% of the Project Company's equity interest is legally held by Hirise which is free from encumbrance; (ii) the sale of the Sale Share will not affect the legality of Hirise holding the shares of the Project Company and (iii) such other matters the Purchaser considers necessary;
- (f) the Purchaser having received a valuation report (in substance and form satisfactory to the Purchaser) from a valuer of international repute on the business of the Project Company (including without limitation the value of the Project Land) confirming that the value of the business of the Project Company is not less than RMB750,000,000; and
- (g) the warranties set out in the Agreement remaining true and correct as at the date of Completion and as if repeated at all time between the date of the Agreement and the date of Completion.

The Company may waive in writing any of the condition precedents specified above (save and except conditions (b), (c) and (d)) at any time. If all the conditions specified above have not been satisfied or waived by 29 March 2013 (or such later date to be agreed between the parties to the Agreement in writing), then the Agreement shall lapse on 29 March 2013 and have no further effect and the parties shall be released from all their respective obligations under the Agreement save and except for any antecedent breach. In such event, The Vendor shall refund the HK\$40,000,000 refundable deposit to the Purchaser.

As at the Latest Practicable Date, apart from condition (f), none of the condition precedents specified above had been fulfilled and the Company has no intention to waive any of the condition precedents.

Completion

Completion of the Acquisition shall take place at 2:00 p.m. on a date which is the seventh (7th) working day after the date on which the condition precedents are satisfied or waived or such other date as the parties to the Agreement may agree in writing.

LETTER FROM THE BOARD

PROMISSORY NOTE

HK\$50,000,000 of the consideration under the Agreement will be satisfied by the issue of the Promissory Note by the Company to the Vendor on Completion. The principal terms of the Promissory Note are as follows:

Issuer	The Company.
Principal amount	HK\$50,000,000.
Maturity	36 months from the date of issue of the Promissory Note.
Transferability	The Promissory Note is transferable.
Coupon rate	2% per annum simple interest commencing from the date of issue and up to the date of payment.
Security	No security will be provided by the Purchaser or the Company in respect of the Purchaser's obligations under the Promissory Note.
Repayment	At the sole discretion of the Purchaser, the Promissory Note or any part thereof may be repaid prior to its maturity, if the Purchaser has given to the holder of the Promissory Note not less than five working days' prior written notice. No interest will be incurred if the Promissory Note is fully repaid prior to its maturity; otherwise, payment of principal amount together with interest of the Promissory Note shall be made upon its maturity.

The Promissory Note will be issued to the Vendor upon completion and it is expected that on maturity the Promissory Note will be settled by net cash inflows generated by the Project Company. Considering that (i) the Project Company has been selling burial sites to customers and generating profit since 2007, (ii) the construction of the ancillary infrastructure and facilities of the columbarium have recently been completed and the Project Company is in the process of liaising with the relevant customer for the acceptance of the delivery of possession of the columbarium niches, after which the Company could recognise the revenue from the sale of the columbarium niches, (iii) the Project Company will continue to develop the Project Land and to construct additional burial sites for sale and to provide management services at the cemetery and (iv) there will be a continuous demand for burial sites in the PRC and on the understanding that in the absence of unforeseen circumstances, the Board believes that the Project Company will be able to generate net cash inflow within the next three years which is enough to settle the Promissory Note upon its expiration. Based on the above, the Company has no current alternative financing plan for the settlement of the Promissory Note.

LETTER FROM THE BOARD

CONVERTIBLE NOTES

HK\$330,000,000 of the consideration under the Agreement will be satisfied by the issue of the Convertible Notes by the Company to the Vendor on Completion. Upon completion of the Agreement and assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Notes in aggregate of HK\$330,000,000 at the conversion price of HK\$0.10 by the holders thereof, the Company will issue an aggregate of 3,300,000,000 Conversion Shares, representing approximately 121.30% of the issued share capital of the Company as at the Latest Practicable Date, approximately 54.81% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. The Conversion Shares will be issued pursuant to the passing of the relevant resolution at the SGM and will rank pari passu in all respects with all existing fully paid Shares in issue on the relevant date of conversion. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares.

The principal terms of the Convertible Notes are as follows:

Issuer	The Company.
Principal amount	HK\$330,000,000.
Interest	The Convertible Notes shall not bear interest.
Maturity	The date falling on the 5th anniversary of the date of issue of the Convertible Notes; which may be extended to the 10th anniversary of the date of issue of the Convertible Notes in accordance with the terms and conditions of the Convertible Notes.
Form and par value	The Convertible Notes shall be issued in registered form.
Conversion price	The conversion price under the Agreement, subject to the usual adjustment, is HK\$0.10 per Conversion Share.

LETTER FROM THE BOARD

The conversion price of the Convertible Notes is subject to anti-dilution adjustment provisions which are standard terms for convertible securities of similar type. The anti-dilution adjustment events will arise as a result of certain change in the Shares including, inter alia, consolidation, reclassification or sub-division of Shares, capitalisation of profits or reserves, capital distributions in cash or specie, right issue and sale of option or warrant, issue or repurchase of shares, convertible bonds or convertible securities.

Conversion rights

The conversion rights under the Convertible Notes shall be exercisable during the conversion period commencing from the date of issue of the Convertible Notes and the Business Day immediately falling on the maturity date. Upon the exercise of any conversion rights under the Convertible Notes, the Company will allot and issue the number of Conversion Shares in respect of which conversion rights are exercised provided that no conversion right may be exercised, to the extent that following such exercise (i) a holder of the Convertible Notes and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 29% or more of the entire issued Shares or such percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer, whichever is lower, (the “Maximum Limit”) or (ii) the Company will be in breach of the minimum public float requirement under the Listing Rules.

For the avoidance of doubt, Mr. Shi Jun, the son of Mr. Shi, will be regarded as acting in concert with Mr. Shi.

LETTER FROM THE BOARD

Pursuant to the terms and conditions of the Convertible Notes, any Convertible Note which remains outstanding by 4:00 p.m. (Hong Kong time) on the maturity date shall be converted automatically into the Conversion Shares. However, there will not be any automatic conversion of the Convertible Notes at maturity if such conversion will result in (i) a holder of the Convertible Notes and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in the Maximum Limit, or (ii) the Company will be in breach of the minimum public float requirement under the Listing Rules. In such event, the Company will, according to the terms and conditions of the Convertible Notes, extend the maturity date of the Convertible Notes for a further five years, i.e., the maturity date of the Convertible Notes will be the 10th anniversary of the date of issue of the Convertible Notes. Any Convertible Notes which remains outstanding by 4:00 p.m. (Hong Kong time) on the extended maturity date shall be converted automatically into the Conversion Shares. However, there shall not be any automatic conversion of the Convertible Notes at the extended maturity if such conversion will result in (i) a holder of the Convertible Notes and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in the Maximum Limit, or (ii) the Company will be in breach of the minimum public float requirement under the Listing Rules.

All outstanding Convertible Notes which are not converted at the extended maturity date will be cancelled by the Company and fully waived without any cost or converted into the debt of the Company.

LETTER FROM THE BOARD

Redemption	Holders of the Convertible Notes will have no right to redeem. The Company has no obligation to repay any outstanding principal amount of the Convertible Notes at the maturity date or the extended maturity date.
Transferability	The Convertible Notes will be freely transferable provided that if the transfer is made to a connected person (as defined under the Listing Rules), such transfer shall comply with the requirements under the Listing Rules.
Status of the Convertible Notes	The Conversion Shares will rank pari passu in all respects with all existing Shares in issue at the date of the notice of conversion.
Voting rights	The Convertible Notes do not confer any voting rights at any meetings of the Company.
Application for Listing	No application will be made for the listing of the Convertible Notes.

The Directors, having considered the recent trading prices of the Shares, the initial conversion price of HK\$0.10 and the prospect of the business operation of the Project Company and that of the Group as a whole, are of the view that the conversion period (i.e., five years which can be further extended for a further five years) is sufficient for the Vendor to exercise the conversion rights attached to all the Convertible Notes. As such, the Directors agreed with the terms of the Convertible Notes (including the automatic conversion upon maturity, extension of the maturity date and cancellation of all outstanding Convertible Notes as at the extended maturity date) and considered that such terms are fair and reasonable and in the interest of the Shareholders. There will be no change of control of the Company upon conversion of the Convertible Notes.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER COMPLETION

Details of the shareholding structures of the Company (i) as at the Latest Practicable Date, (ii) after Completion but before conversion of the Convertible Notes by the Vendor, (iii) after Completion and full conversion of the Convertible Notes by the Vendor, and (iv) after Completion and conversion of the Convertible Notes by the Vendor (assuming that the conversion restriction of the Convertible Notes applies); and assuming that there is no other change in the share capital of the Company are set out below

Name	Number of Shares held directly or indirectly as at the Latest Practicable Date	Approximate percentage of the total issued share capital of the Company	Number of Shares held after Completion and full conversion of the Convertible Notes (Note 6)	Approximate percentage of the total issued share capital of the Company	Number of Shares held after Completion and conversion of the Convertible Notes, assuming that the conversion restriction applies (Note 7)	Approximate percentage of the total issued share capital of the Company
The Vendor (Note 1)	–	–	3,300,000,000	54.81%	885,888,104	24.57%
Mr. Shi (Note 2)	65,000,000	2.39%	65,000,000	1.08%	65,000,000	1.80%
Shi Jun (Note 3)	95,000,000	3.49%	95,000,000	1.58%	95,000,000	2.63%
Sub-total	160,000,000	5.88%	3,460,000,000	57.47%	1,045,888,104	29.00%
Other Shareholders						
Law Fei Shing (Note 4)	20,000,000	0.74%	20,000,000	0.33%	20,000,000	0.56%
Shen Mingzhen (Note 5)	95,000,000	3.49%	95,000,000	1.58%	95,000,000	2.63%
Public	2,445,622,600	89.89%	2,445,622,600	40.62%	2,445,622,600	67.81%
Total	2,720,622,600	100.00%	6,020,622,600	100.00%	3,606,510,704	100.00%

Notes:

- The Vendor is wholly-owned by Mr. Shi.
- In addition to the 65,000,000 Shares held by Mr. Shi, Mr. Shi also holds share options representing 27,000,000 Shares.
- Mr. Shi Jun is the son of Mr. Shi and is also an executive director of the Company. In addition to the 95,000,000 Shares, Mr. Shi Jun also holds share options representing 27,000,000 Shares.

LETTER FROM THE BOARD

4. Mr. Law Fei Shing is an executive Director. In addition to the 20,000,000 Shares, Mr. Law Fei Shing also holds share options representing 27,000,000 Shares.
5. Ms. Shen Mingzhen is an executive Director. In addition to the 95,000,000 Shares, Ms. Shen Mingzhen also holds share options representing 27,000,000 Shares.
6. The approximate percentage shown is for illustrative purpose only. Under the terms of the Convertible Notes, the Vendor shall not exercise the conversion rights attaching to the Convertible Notes such that (i) it and parties acting in concert with him, taken together, will directly or indirectly, control or be interested in 29% or more of the entire issued Shares or such percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer, whichever is lower, or (ii) the Company will be in breach of the minimum public float requirement under the Listing Rules.
7. As the Vendor, together with Mr. Shi Jun, cannot control or be interested in 29% or more of the entire issued Shares, less Conversion Shares will be issued by the Company to the Vendor (assuming that the remaining Conversion Shares are not issued).

PREVIOUS ACQUISITION

The Company entered into an agreement on 18 June 2010 with Independent Third Parties to acquire 41.2% of the entire equity interest of the Project Company. Completion took place on 19 November 2010. A total consideration of approximately HK\$87,186,000 (valuation at acquisition completion date) was paid to the vendors partly by cash and partly by the Company's allotment and issue of new Shares. After completion, the Company also injected a further sum of RMB80,000,000 (equivalent to approximately HK\$96,560,000) into the Project Company and thereby increased its equity interest in the Project Company to 51%. The Group had entered into a series of structure contracts with the Project Company in order for the Group to manage and operate the Project Company's cemetery services business in Zhejiang, the PRC. By way of the structure contracts and the contractual arrangements contemplated thereunder, the Company had nominated a member of the Group's senior management who is a PRC citizen to hold its 51% equity interest in the Project Company.

Mr. Shi, the ultimate beneficially owner of the Vendor, was one of the six vendors of the Previous Acquisition. Save and except for himself and Mr. Shi Jun, his son, Mr. Shi and the Vendor has no relationship with any of the remaining vendors of the Previous Acquisition. For further information regarding the Previous Acquisition, please refer to the Company's announcements dated 5 July 2010, 19 November 2010 and circular dated 21 October 2010.

In October 2011, in compliance with the relevant PRC rules and regulations, the 51% equity interest of the Project Company was transferred from the nominee to the Group. Since then, the Company directly controls, operates and manages the business of the Project Company.

LETTER FROM THE BOARD

The Group's total commitment under the Previous Acquisition was approximately HK\$183,746,000 for 51% equity interest in the Project Company. Pursuant to the provisions of the Agreement, the Group proposes to acquire an additional 47.38% equity interest in the Project Company at HK\$430,000,000. In accepting the premium to be paid for the Acquisition, the Board has considered the increase of the value of the business of the Project Company and the future prospect of the cemetery business of the Project Company. At the time of the Previous Acquisition, the value of the business of the Project Company was RMB437,000,000, as stated in the valuation report on the Project Company included in the Company's circular dated 21 October 2010. The present value of the business is expected to be not less than RMB750,000,000. To this end, the Company will not proceed to Completion unless the value of the business of the Project Company is not less than RMB750,000,000.

LCH (Asia-Pacific) Surveyors Limited has advised that the increase of value is mainly due to the following factors:

- The increase in selling price - the historical average selling price of burial sites were approximately RMB39,000 and RMB49,000 in 2009 and 2011 respectively. Although the selling price has decreased a bit to RMB44,000 in the first half year of 2012, the current price is also higher than the selling price as at the last valuation date, i.e., 30 June 2010.
- A higher growth rate on the quantity is expected - according to the business plan provided by the Project Company, most of the burial sites in other cemeteries in Hangzhou have been sold-out, thereby competition is lower, and as such the management of the Project Company has more confidence in a higher growth rate on the quantity of the burial sites to be sold by the Project Company.

INFORMATION RELATING TO THE TARGET GROUP

The Target Company is an investment holding company incorporated under the laws of the BVI on 20 April 2012. Hirise is an investment holding company incorporated under the laws of Hong Kong on 27 May 2011. Based on the information provided by the Vendor and Mr. Shi, the Vendor, through the Target Company and Hirise, acquired 47.38% equity interest of the Project Company from Mr. Shi as part of a corporate restructuring of the Target Group in July 2012. Mr. Shi was one of the founding equity holders of the Project Company who had contributed an aggregated sum of approximately RMB40,859,000 to the registered capital of the Project Company since its establishment in 1999.

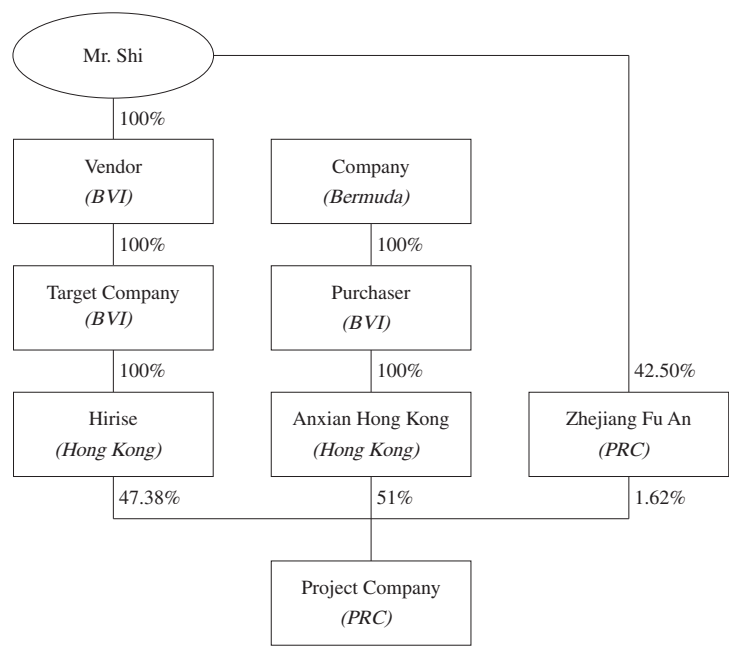
LETTER FROM THE BOARD

The Project Company, established under the laws of the PRC on 26 April 1999, is a limited liability company with a registered capital of RMB85,000,000 (fully paid up) and is principally engaged in the business of developing and operating cemetery in Hangzhou, Zhejiang Province, the PRC. The Project Company sells burial sites and columbarium niches, designs the tombstone according to customers’ orders and provides daily management to the cemetery.

The Project Company owns the Project Land which has a total site area of approximately 647,715.1 square meters. As at the Latest Practicable Date, out of this total site area, approximately 142,503 square meters had been developed as a cemetery which included burial sites, green zone and accessories. The Project Land, which is free from any charge or mortgage, was granted by the PRC government without lease period specified in the land use right certificate and is designated for use as cemetery. The Project Company has obtained all approvals from the relevant PRC authorities necessary for conducting cemetery business on the Project Land.

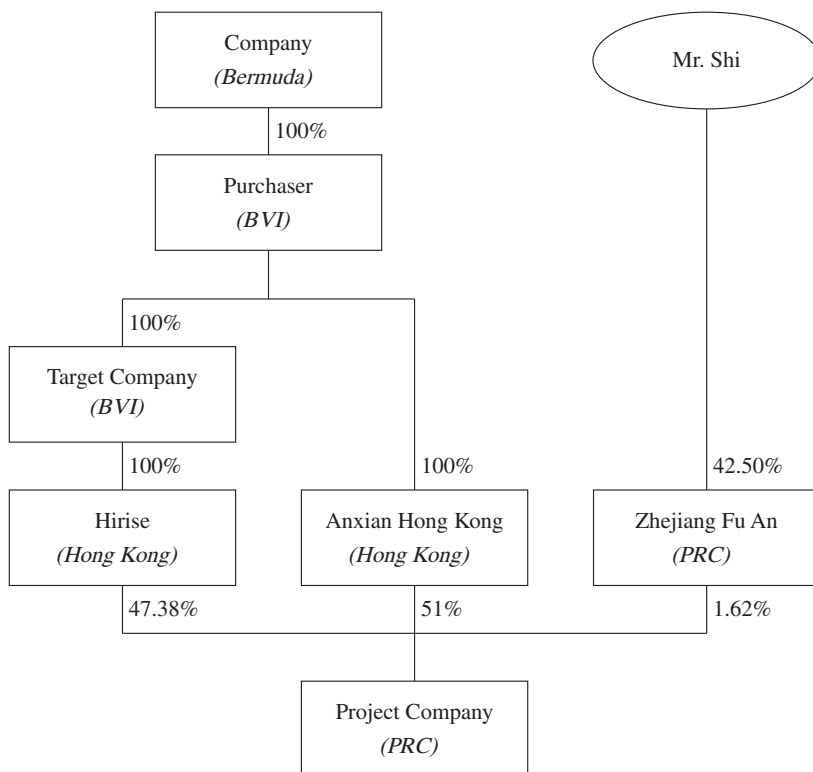
Corporate structure

The following diagram illustrates the corporate structure of the Company and the Target Group as at the Latest Practicable Date and immediately before completion of the Acquisition:



LETTER FROM THE BOARD

The following diagram illustrates the corporate structure of the Company and the Target Group immediately after Completion:



The minority shareholder of the Project Company, Zhejiang Fu An is a limited liability company incorporated under the laws of the PRC which is owned as to 42.5% by Mr. Shi, 10% by Mr. Shi Jun, 5% by Ms. Shen Mingzhen, 5% by Ms. Chen Jinjuan, 5% by Mr. Lu Guofu, 5% by Mr. Pan Guoqiang and the remaining 27.5% by the other senior management of Zhejiang Fu An and other investors.

Financial Information of the Target Group

In accordance with the PRC generally accepted accounting principles and practices, the audited net asset value of the Project Company was approximately RMB118,115,659 as at 31 December 2011 and the audited net profit attributable to the Project Company for the two years ended 31 December 2010 and 2011 were as follows:

	For the financial year ended	
	31 December	31 December
	2011	2010
	(audited)	(audited)
Net profit before taxation	RMB8,658,507	RMB38,719,360
Net profit after taxation	RMB8,658,507	RMB38,719,360

LETTER FROM THE BOARD

CEMETERY BUSINESS OF THE PROJECT COMPANY

After Completion, the Company will indirectly own 98.38% equity interest of the Project Company, through which the Group will continue to operate a first class cemetery in Zhejiang, the PRC.

The operation of cemetery by the Project Company involves the layout design and construction of the cemetery and sale of burial sites and columbarium niches to customers. The sale of burial sites to the customers has been conducted through the Project Company's sales offices; while the columbarium niches have been sold to a PRC government body in Hangzhou City. The revenue of the Project Company represents the sale of burial sites and columbarium niches and related management fee. As disclosed in the Company's annual report 2012, the Project Company sold 1,047 burial sites with an average selling price of approximately RMB50,300 per burial site. For the period from 19 November 2010, the date on which the Group acquired 41.2% equity interest of the Project Company, to 31 March 2011, the Project Company sold 320 burial sites at approximately RMB44,800 each and 26,000 columbarium niches at approximately RMB3,610 each, in average.

According to the National Bureau of Statistics of the PRC, the population at or over the age of 65 in the PRC for 2010 was approximately 119 million or approximately 8.87% (2000: 6.96%) of the total population. According to the China Statistical Yearbook 2011, the per capita annual disposable income of urban households and rural households in the PRC enjoyed a percentage increase of approximately 86.81% and approximately 77.67% respectively from 2000 to 2010. As the population of the PRC continues to age and per capita income to increase, the Board believes that there is an upward trend in the demand for cemetery services.

PRC cemetery service industry is an industry with a high entry barrier because of limited supply of new cemetery land coupled with regulatory complexities and zoning restrictions. The Board believes that the Project Company has competitive edge over its competitors as it has obtained the Project Land and considerable knowledge and experience in cemetery services since the commencement of its operation in 2000.

The Project Land has a total site area of approximately 647,715.1 square meters with no lease period specified in the land use right certificate and is designated for use as cemetery. As at 30 June 2012, approximately 142,503 square meters had been developed and approximately 12,400 burial sites and 26,000 columbarium niches had been sold since the commencement of operation in year 2000. As at 30 June 2012, the Project Company had approximately 1,770 burial sites and 37,000 columbarium niches in the Project Land available for sale.

LETTER FROM THE BOARD

Based on the current development plan, the Project Company will continue to expand its existing cemetery in the coming years. The Project Company will construct approximately 230,000 burial sites in aggregate on the Project Land for sale to its customers on or before 2044. The revenue of the Project Company will continue to be mainly derived from the sale of burial sites and columbarium niches and related management fee. Subject to compliance with the prescribed formalities, rules and regulations, funeral and ancestral worship service will also be provided by the Project Company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, most of the burial sites in other cemeteries in Hangzhou are sold-out. As such, it is expected that the initial growth rate on quantity would be about 13% per annum and the expected annual sales will not be more than 40% of the death population in Hangzhou urban area throughout the forecasted period, i.e., up to 2044 (the "Forecasted Period"). 37,000 columbarium niches are expected to be sold by year 2014, namely, 13,000 niches before 31 December 2012, 12,000 niches in year 2013 and another 12,000 niches in year 2014. The management fee will be collected upfront based on 10-year renewable management contracts. The funeral and ancestral worship service is expected to be provided by the Project Company from 2013 onwards and initially 30% of the burial site buyers are expected to use such service.

Based on the current development plan, the construction of the above-mentioned 230,000 burial sites will be completed by year 2043. The capital expenditure is expected to be approximately RMB47 million for the next five years and the working capital will be maintained at an adequate level to meet business needs. It is expected that net cash inflows generated by the Project Company and bank loans will continue to be used to fund the capital expenditure and the working capital of the Project Company. The Project Company will apply for banking facilities as and when needed. As at the Latest Practicable Date, save as disclosed above, the Project Company has no financing plan for its cemetery business.

While the columbarium niches will be sold to a PRC government body in Hangzhou, the sales of burial sites will continue to be conducted through the Project Company's sales offices. The target customers of the burial sites are citizens from Shanghai, the provinces such as Jiangsu and Zhejiang, and overseas Chinese. The burial sites will be categorized into four types - standard, high-end, artistic and family-based with growth rate on their price ranging from 3% per annum for standard type to 7.2% per annum for family-based type. The customers are currently charged by the Project Company 10-year management fee of RMB450 per burial site and new customers are assumed to be charged at a rate by reference to the CPI of China which is expected to be 4% per annum throughout the Forecasted Period. The 10-year management fee for columbarium niches will be maintained at the current level of RMB190 per unit sold.

LETTER FROM THE BOARD

According to the current business plan, the cost of sales includes raw materials and development and formation costs. The gross margin is approximately 70% for the years up to 2014 in which sales of burial sites and columbarium niches are expected to take place. Thereafter, there will be no sales of columbarium niches and the gross margin of the Project Company is expected to improve slightly to a rate not exceeding 80% since the gross margin rate for the burial sites is higher than that of the columbarium niches. With selling, general and administrative as well as other expenses of approximately 37% in total and subject to an expected income tax of 25%, the projected net profit margin is ranging from approximately 25% to 35% over the Forecasted Period.

Since the commencement of the operation of the Project Company in 2000, a capable team with considerable knowledge and experience in cemetery services has already been assembled. The Board believes that the existing management of the Project Company is capable to run the business as planned and the Project Company will continue to maintain enough staff members with high quality through competitive recruitment, training and management development programs.

REASONS FOR ENTERING INTO THE AGREEMENT

The Company is an investment holding company and its subsidiaries are principally engaged in the development and operation of cemeteries in the PRC.

The Company intends to continue to focus on the cemetery business which the Directors believe has ample growth opportunities due to the growing trend of aged population by further developing its existing cemetery and by acquiring new cemetery in the PRC.

The Project Company has become a subsidiary since November 2010. The Board has confidence in the future performance of the Project Company as the Board believes that cemetery business in the PRC has great potential because (a) there is a continuous demand for burial sites (including tombs and columbarium niches) and the related services, since the population of the PRC continues to age and per capita annual disposable income to increase, (b) new cemetery land supply in the PRC is limited coupled with regulatory complexities and zoning restrictions, and (c) business plan and profit forecast of the Project Company are available. The Project Company owns the Project Land which has a total site area of approximately 647,715.1 square meters, and the Project Land has been approved and designated for the cemetery operation. The Company considers that it would be beneficial to the Shareholders and the Group as a whole to acquire further equity interest in the Project Company, and to further expand its cemetery business in Zhejiang, the PRC.

LETTER FROM THE BOARD

The Project Company experienced a drop in revenue and profit for the financial year ended 31 March 2012 as compared with 2011 due to project delay. In or about mid-May 2012, a customer informed the management of the Project Company that it would not accept delivery of possession of the columbarium niches because the ancillary infrastructure and facilities of the columbarium including the car parks and public utilities were yet to be fully completed. As such, the Company is unable to recognise the revenue from the sale of columbarium niches until such customer agrees to accept delivery of possession of the columbarium niches. As at the Latest Practicable Date, construction of the ancillary infrastructure and facilities of the columbarium had been completed and the customer had confirmed with the Project Company that it would accept delivery of possession of a total of 37,000 columbarium niches before the end of 2014, namely, 13,000 niches before 31 December 2012, 12,000 niches in year 2013 and another 12,000 niches in year 2014. Upon delivery of possession of these niches, the Project Company could be able to recognise the revenue from the sale of columbarium niches. The said customer is a PRC government body and has been in business relationship with the Project Company since 2009. For the period from 19 November 2010, the date on which the Project Company was acquired by the Group, to 31 March 2012, the total amount billed to such customer accounted for approximately 58% of the total revenue of the Project Company for the same period. The Company believes that the project delay referred above is an isolated one-off incident which will not happen again as the construction of ancillary infrastructure and facilities has been completed.

As at 31 March 2012, a sum of RMB18,800,000 (equivalent to approximately HK\$23,192,000) was due from the customer referred to above in relation to the sale of columbarium niches for RMB98,800,000 made in the financial year ended 31 March 2011. Out of the RMB18,800,000, RMB10,000,000 was settled by the said customer in May 2012. The Company expects that the said customer will settle the remaining sum within the next six months.

Prior to Completion, the Company already has control over the Project Company. Following Completion, the Company's equity interest in the Project Company will increase from 51.00% to 98.38% and the Company will be able to obtain more benefit from the expansion and development of the existing cemetery and earnings of the Project Company. The Company has no current intention to acquire from Zhejiang Fu An the remaining 1.62% equity interest in the Project Company which will remain as a sino-foreign joint venture company. When considering the acquisition of further interest in the Project Company at this point of time at a total consideration of HK\$430,000,000, the Board has taken into account (a) the future prospect of the Project Company, as detailed in the Project Company's business plan and profit forecast, (b) the potential growth of the cemetery business in the PRC, judging from the statistics on the demographics and GDP growth of the PRC and other factors disclosed in this circular as well as the potential sale of columbarium niches referred above. The Board is of the view that the project delay will not affect the Acquisition as it is an isolated one-off incident which will not happen again because the construction of the ancillary infrastructure and the facilities of the columbarium has been completed.

LETTER FROM THE BOARD

The Directors (excluding the independent non-executive Directors who will be appointed as members of an independent board committee to advise the independent Shareholders in respect of the Agreement, who will provide their views after considering the opinion of the independent financial adviser) are of the view that the terms of the Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION

Prior to Completion, the Project Company is a subsidiary of the Company. Upon Completion, the Project Company will continue to be a subsidiary of the Company, and the equity interest of the Project Company held by the Company will increase from 51% to 98.38%. The Company will continue to consolidate the results of the Project Company in the Group's consolidated financial statements. The unaudited pro forma financial information of the Enlarged Group illustrating the financial effects of the Acquisition is set out in Appendix V headed "Unaudited pro forma financial information of the Enlarged Group" to this circular.

Assets and liabilities

According to the 2012 annual report of the Company, the audited consolidated total assets and liabilities of the Group as at 31 March 2012 were approximately HK\$768,304,000 and HK\$263,370,000 respectively. Based on the unaudited pro forma financial information of the Enlarged Group, assuming Completion had taken place on 31 March 2012, the unaudited pro forma consolidated total assets, liabilities and equity of the Enlarged Group would be approximately HK\$718,357,000, HK\$305,878,000 and HK\$412,479,000 respectively. The unaudited pro forma consolidated total liabilities and equity of HK\$305,878,000 and HK\$412,479,000 have taken into account pro forma adjustment in relation to the fair value of the Promissory Note of HK\$50,000,000 and the Convertible Notes of HK\$330,000,000 respectively. The Promissory Note is classified as financial liabilities in the unaudited pro forma financial information of the Enlarged Group. The Convertible Notes will be classified as equity as no redemption right is attached to the Convertible Notes.

LETTER FROM THE BOARD

Earnings

According to the 2012 annual report of the Company, the Group recorded an audited consolidated net loss of approximately HK\$120,889,000 for the financial year ended 31 March 2012. Based on the unaudited pro forma financial information of the Enlarged Group, assuming Completion had taken place on 1 April 2011, the unaudited pro forma consolidated loss of the Enlarged Group would be approximately HK\$124,610,000 for the financial year ended 31 March 2012. The unaudited pro forma consolidated loss of HK\$124,610,000 has taken into account pro forma adjustments in the amount of approximately HK\$3,690,000 in relation to fair value changes of Promissory Note of HK\$50,000,000. The adjustments reflect the imputed interest expenses of the Promissory Note, assuming the effective interest rate of 9% per annum and fair value of the Promissory Note of approximately HK\$41,000,000 as if the Acquisition was completed on 1 April 2011. The Promissory Note classified as financial liabilities at fair value through profit and loss will be measured at fair value at each report date with the movement in fair value recognised in the profit and loss of the Enlarged Group for that reporting period. In light of the prospects of the cemetery business of the Target Group, the Directors are of the view that the Acquisition would likely to have a positive impact on the future earnings of the Enlarged Group.

Prospect of the Enlarged Group

The Group has succeeded in entering into the PRC cemetery service industry by acquiring 41.2% equity interest of the Project Company in November 2010 and further increased such interest to 51% in May 2011. In order to focus on the cemetery business, the Group discontinued its business in electronic trading, metal trading and leather trading in July 2011. During the financial year ended 31 March 2012, the entire turnover of the Group was derived from cemetery business.

It has been the objective of the Group to become a market leader and to build up national brand name in the PRC cemetery industry and the strategies of the Group to expand its cemetery business by generic growth and by acquisitions and to provide one-stop service from cemetery development to funeral and ancestral worship services.

The Group is confident that the cemetery business in the PRC has great potential. Upon completion of the Acquisition, the Company will indirectly own 98.38% equity interest of the Project Company and the Enlarged Group will be able to enjoy higher market share in the PRC, particularly in Zhejiang, the PRC, and the additional share of earnings which are expected to be generated by the Project Company. The Enlarged Group, however, is also committed to continue investing in the Project Company with the Enlarge Group's long term commitment to continue to focus on its cemetery business. As previously mentioned, it is expected that net cash inflows generated by the Project Company and bank loans will continue to be used to fund the capital expenditure and working capital of the Project Company. As at the Latest Practicable Date, save as disclosed above, the Project Company had no financing plan for its cemetery business. Hence, the Board considers that there is no disadvantage for the Group to enter into the Acquisition.

LETTER FROM THE BOARD

PROPERTY INTERESTS

As at the Latest Practicable Date, the Enlarged Group held a parcel of administrative land having a site area of approximately 647,715.1 square meters, various domestic and office properties, and various leased properties in the PRC and Hong Kong. Details of which are set out in Appendix VII to this circular.

The table below sets out the reconciliation of aggregate amounts of the property interests of the Project Company included in the statement of financial position of the Project Company as of 30 June 2012 to the valuation amount of property interests of the Project Company as of 30 September 2012:

	<i>RMB ('000)</i>
Net book value of property interests of the Project Company as of 30 June 2012	3,692
Movements for the period from 1 July 2012 to 30 September 2012	
– Depreciation	(217)
Net book value of property interests of the Project Company as of 30 September 2012	3,475
Valuation as of 30 September 2012 per Appendix VII of this circular (including the reported depreciated replacement cost)	5,750
Valuation surplus as of 30 September 2012	2,275

RISK FACTORS

Possible risk factors which may be faced by the Group in connection with the Acquisition are as follows:

Regulatory control

The cemetery operation business is regulated by legislation and various regulatory authorities in the PRC. The Group is required to obtain the relevant licences for the operation of cemeteries in the PRC. In this respect, the Group has to ensure continuous compliance with all applicable laws, regulations and codes in the PRC to avoid any fines or any form of sanctions. Failure to comply with the relevant laws and regulations of funeral services industry may adversely affect the Group's operation of cemeteries.

LETTER FROM THE BOARD

The business of the Project Company may entail significant competition

As the government of the PRC may grant further licenses for the operation of cemetery business in the future, more companies will enter into this business. In view of existing and future competition from market players, this may have adverse effect on the operating performance of the Project Company and hence affect the value of the business.

On the other hand, the average selling price for the burial sites of the Project Company may decrease over time. The Project Company believes the decrease was mainly attributable to factors including general industry price trends, market price of the land, supply and demand of burial sites, as well as increased competition in the cemetery business. Its market share could be reduced if its competitors develop or offer burial sites, services and facilities that are comparable or superior to the Project Company at a lower price. Increased competition in the future could result in price reduction, margin contraction, or other strains on its operations. If its competitors offer better quality services or better pricing than the Project Company, the revenue, market share, and result of operations of the Target Group could be materially and adversely affected. It cannot be assured that the Target Group will be able to maintain a competitive edge over its existing and future competitors.

Funeral services industry is becoming increasingly competitive

In the PRC, the funeral services industry is composed of a number of well-established funeral services providers. To compete successfully, the Group has to provide and maintain good quality funeral services at reasonable and competitive prices. In addition, the Group must be able to promote and market itself as being distinguishable and different from its competitors. If the Group is unable to compete effectively, its financial condition, operating results and cash flows could be materially affected.

Operations of funeral services business in the PRC

The Group's operation of providing funeral services in the PRC may incur increasing regulatory risks, including:

- loss of business and revenue, property interest and equipment as a result of hazards such as expropriation, nationalization, civil disturbance and other political risks;
- the adverse effects of currency fluctuations and exchange controls, such as appreciation of RMB or devaluation of foreign currencies or other economic problems; and

LETTER FROM THE BOARD

- changes in law, regulations and policies on the operation of funeral services business in the PRC irrespective of whether at the central, provincial or municipal levels.

Given the increasing aging of the population of the PRC and the growing demand for funeral services in the PRC, there is no assurance that the PRC government may not impose more stringent control measures and requirements in regulating the funeral services industry and the operation of such businesses in the future.

The Project Company may subject to legal and business risks if it fails to obtain or renew the required licenses and permits to carry on the operations

In accordance with the laws and regulations of the PRC, Project Company is required to maintain the relevant approvals, permits and licenses for its business operations. Pursuant to the PRC legal opinion dated 19 November 2012 issued by Guangxin Lawyers, qualified PRC Legal advisor of the Group, the Project Company has obtained all necessary approvals, permits and licenses in connection with its principal business activities. However, there are no assurance that the PRC authorities will not amend or revise existing laws, rules or regulations to require additional approvals, permits or licenses required for the Project Company's business and operations. If the Project Company is unable to obtain or renew these approvals, permits and licenses or to do so in a timely manner, it may not be permitted to continue to carry on its business operations, and this may materially and adversely affect its business, results of operations and financial condition.

Reliance on a customer on the sales of columbarium niches

For the two years ended 31 December 2011 and the six months ended 30 June 2012, 54.91%, 43.12% and none of the Project Company's sales was generated from sales of columbarium niches respectively. The customer, who is a government body in the PRC, is the only customer of the Group's sales of niches. Pursuant to the announcement of the Company dated 9 November 2012, the customer has accepted the delivery of possession of a total of 37,000 columbarium niches before the end of 2014, namely, 13,000 columbarium niches during the year 2012, 12,000 columbarium niches during the year 2013 and the remaining during 2014.

In the event that the Project Company fails to meet delivery schedule of niches as agreed mentioned in the said announcement, or in the event that the Project Company is not able to identify any new customers, the turnover and profitability of the Project Company may be adversely affected.

LETTER FROM THE BOARD

Uncertainty in the business plan of the Project Company

The business plan of the Project Company is dependent upon certain assumptions on future events. By nature, these assumptions are subject to certainty and therefore cannot be assured that the Project Company will be able to successfully development and expand its services, or that demand can be achieved as planned. It cannot be assured that the Project Company will be successful in achieving the planned business operation, profits, development of burial sites and funeral services. If any of its business plans does not materialise as planned or delayed, its business operation may be greatly and negatively affected, which could result in a significant decrease in profit.

The result of Project Company's business operation may experience significant fluctuation

The operating results of the Project Company may fluctuate significantly, depending upon many factors that include, but are not limited to, the following:

- changes in demand for the burial sites and funeral services and in particular, timing, amount and needs;
- changes in government policies in the cemetery business;
- the effectiveness with which the Project Company handle its business, control its cost and future business plans;
- changes in the cost and availability of labor and other inputs; and
- the ability to obtain financing in a timely manner.

The operating results of the Target Group may fluctuate from period to period, due to the above mentioned factors and other risks discussed in this section, many of which are beyond its control.

LISTING RULES IMPLICATIONS

Given that the Percentage Ratios exceed 100%, the entering into of the Agreement constitutes a very substantial acquisition for the Company under the Listing Rules and will be subject to the approval of the Shareholders at the SGM under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

The Vendor is an investment holding company legally and beneficially owned by Mr. Shi, the chairman, chief executive officer, executive director and shareholder of the Company, who as at the Latest Practicable Date, held 65,000,000 Shares, representing approximately 2.39% of the total issued share capital of the Company. The Vendor is therefore regarded as a Connected Person of the Company and the Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Agreement and the transactions contemplated thereunder are subject to approval by the Independent Shareholders at the SGM.

The Company has formed an Independent Board Committee to advise the Independent Shareholders on the terms of the Agreement and the transactions contemplated thereunder. Octal Capital Limited has also been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Acquisition. As Mr. Shi and Mr. Shi Jun have a material interest in the Acquisition, they have abstained from voting at the Board meeting approving the Acquisition.

THE SGM

A notice convening the SGM to be held at Room 2118, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong on Friday, 28 December 2012 at 11:00 a.m. is set out on pages 281 to 282 in this circular.

As the Vendor is wholly-owned by Mr. Shi, the chairman, chief executive officer, executive director and shareholder of the Company, who is thereby a Connected Person of the Company, Mr. Shi is regarded to have material interest in the Agreement and the transactions contemplated thereunder. At the Latest Practicable Date, Mr. Shi held 65,000,000 Shares, representing approximately 2.39% of the total issued share capital of the Company and Mr. Shi Jun, the son of Mr. Shi, held 95,000,000 Shares, representing approximately 3.49% of the total issued share capital of the Company. Mr. Shi and Mr. Shi Jun are required to abstain from voting in the SGM to approve the Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, except for Mr. Shi who has material interests in the Acquisition, no Shareholders will be required to abstain from voting in relation to the resolution to approve, among other things, the Acquisition and the transactions contemplated thereunder at the SGM.

LETTER FROM THE BOARD

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instruction printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM (or any adjournment thereof) should you so wish.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39 of the Listing Rules, any votes of the Shareholders at the general meeting must be taken by poll. Therefore, all resolutions proposed at the SGM will be voted by poll.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 34 of this circular which contains its recommendation to the Independent Shareholders in relation to the Acquisition. Your attention is also drawn to the letter of advice from the Independent Financial Adviser set out from pages 35 to 76 of this circular which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, and the principal factors and reasons taken into account in arriving at its recommendation.

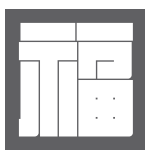
The Board considers that the Acquisition is on normal commercial terms, and the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition.

FURTHER INFORMATION

Your attention is drawn to the notice of the SGM set out on pages 281 to 282 of this circular and the information set out in the Appendices to this circular.

By order of the board
China Boon Holdings Limited
Law Fei Shing
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA BOON HOLDINGS LIMITED

中福控股發展有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00922)

28 November 2012

To the Shareholders

Dear Sir/Madam,

**VERY SUBSTANTIAL ACQUISITION
CONNECTED TRANSACTION
AND
NOTICE OF SPECIAL GENERAL MEETING**

We refer to the circular (the “**Circular**”) of China Boon Holdings Limited dated 28 November 2012, of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders in connection with the terms of the Agreement and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

Having considered the terms of the Agreement and the advice of the Independent Financial Adviser as set out on pages 35 to 76 of the Circular, we are of the opinion that the Acquisition is on normal commercial terms, and the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Fu Xiao Dong

Ms. Lau Siu Ngor

Ms. Tang Yan

Independent non-executive Directors

* for identification purposes only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter to the Independent Board Committee and the Independent Shareholders from Octal Capital in respect of the terms of the Agreement prepared for the purpose of incorporation in this circular.



801-805, 8/F, Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

28 November 2012

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement, particulars of which are set out in the letter from the Board of the circular to the shareholders of the Company dated 28 November 2012 (the “Circular”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board of the Circular (the “Letter from the Board”) and pursuant to the Agreement, the Purchaser conditionally agreed to acquire from the Vendor the Sale Share at a total consideration of HK\$430,000,000 which will be satisfied partly by cash and partly by the Company’s issue of Promissory Note and the Convertible Notes. Upon Completion, the Company’s equity interest in the Project Company will increase from 51% to 98.38%.

We are not connected with the Directors, chief executive and substantial shareholders of the Company, the Group, Mr. Shi or the Target Group or any of their subsidiaries or their respective Associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the Directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective Associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the Directors and management of the Company regarding the Group and the Agreement, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Target Group and their respective Associates nor have we carried out any independent verification of the information supplied.

THE ACQUISITION

Principal factors considered

In arriving at our opinion regarding the terms of the Agreement, we have considered the following principal factors and reasons:

1. Background of the Group, cemetery industry in the PRC and Target Group

The Group

Pursuant to the 2012 annual report of the Company for the year ended 31 March 2012 (“2012 Annual Report”), the Group is principally engaged in (i) electronic trading; (ii) metal trading; (iii) leather trading; and (iv) cemetery business in the PRC. Pursuant to a written resolution passed on 4 July 2011, the directors resolved that the Group’s electronic trading, metal trading and leather trading businesses were discontinued effective from 4 July 2011 in light of its long-term strategy in the cemetery business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As China's population continues to age and per capita income to increase, the Directors believe there is an upward trend in the demand for cemetery services. Since 4 July 2011, cemetery operation is the only business of the Group. The Group's revenue of cemetery business, being the sales of burial sites and columbarium niches and management fee income of Project Company, a subsidiary of the Company engaging business cemetery business in Hangzhou, the PRC for the year ended 31 March 2012 accounted for approximately HK\$64.7 million. The Group's cash and bank balances as at 31 March 2012 was approximately HK\$52.1 million.

Set out below are the (i) summary of audited consolidated financial statement of the Group for the three years ended 31 March 2012; and (ii) breakdown of the Group's total turnover:

<i>Expressed in HK\$'000</i>	For the year ended 31 March		
	2010	2011	2012
Revenue			
– cemetery business	–	127,642	64,704
– leather trading*	11,916	7,825	–
– electric trading*	8,961	–	–
– metal trading*	6,388	–	–
	<u>27,265</u>	<u>135,467</u>	<u>64,704</u>
Total revenue			
	<u>27,265</u>	<u>135,467</u>	<u>64,704</u>
Gross (loss)/profit	(7,839)	74,547	47,902
Gross profit margin	N/A	55.03%	74.03%
Loss attributable to owners of the Company	(98,074)	(20,335)	(111,245)
	<u>(98,074)</u>	<u>(20,335)</u>	<u>(111,245)</u>
Total Assets	259,925	799,051	768,304
Total Liabilities	3,673	262,231	263,370
	<u>3,673</u>	<u>262,231</u>	<u>263,370</u>
Net assets value	256,252	536,820	504,934
	<u>256,252</u>	<u>536,820</u>	<u>504,934</u>

Note:

* Electronic trading, metal trading and leather trading businesses were discontinued effective from 4 July 2011

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated above the Group's revenue increased from approximately HK\$27.3 million for the year ended 31 March 2010 to approximately HK\$135.5 million for the year ended 31 March 2011, and decreased to approximately HK\$64.7 million for the year ended 31 March 2012. The Group incurred gross loss for the year ended 31 March 2010 while its gross profit margin, as fully derived from cemetery business, increased from 55.03% for the year ended 31 March 2011 to 74.03% in 2012. The loss attributable to owners of the Company was approximately HK\$20.34 million for the year ended 31 March 2011 was mainly due to the revenue of cemetery business was only accounted from 19 November 2010, the date of the acquisition of 41.2% equity interest of the Project Company, to 31 March 2011 was consolidated in the Group's account. The substantial drop in revenue and increase of loss attributable to the owners of the Company for the year ended 31 March 2012 was mainly due to (i) a bad debt provision of HK\$80 million made against a debtor, which is a refundable deposit due to the lapse on 1 December 2011 of acquisition of a company which principally engaged in the provision of cemetery operation in Shanghai; (ii) lower contribution from Project Company by approximately HK\$31.2 million as there were no sales of columbarium niches due to project delay that the ancillary infrastructure and facilities of the columbarium including the car parks and public utilities were yet to be totally completed; and (iii) no gain on the acquisition of 9.8% equity interest of Project Company (financial year 2011: a gain of approximately HK\$35.8 million on the acquisition of 41.2% equity interest of the Project Company). As at the Latest Practicable Date, the construction of ancillary infrastructure and facilities has been completed and the relevant customer accepted the delivery of possession of the columbarium niches.

As shown in the above table, net assets value of the Group was approximately HK\$504.9 million as at 31 March 2012. The assets of the Group as at 31 March 2012, primarily comprised of intangible assets and development and formation costs of columbarium niches and burial sites of approximately HK\$392.28 million and HK\$100.81 million respectively. Liabilities at 31 March 2012 mainly consist of trade payables, short-term bank borrowings and deferred tax liabilities of approximately HK\$30.41 million, HK\$77.72 million and HK\$95.94 million respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company has concentrated on cemetery business in the PRC since November 2010. Pursuant to the Previous Acquisition, the Company entered into agreement on 18 June 2010 to acquire 41.2% of the entire equity interest of the Project Company with a total consideration of approximately HK\$87,186,000 (valuation on completion of the said acquisition). Completion took place on 19 November 2010. After completion, the Company also injected a further sum of RMB80,000,000 (equivalent to approximately HK\$96,560,000) into the Project Company and thereby increased its equity interest in the Project Company to 51%. The Group had entered into a series of structure contracts with the Project Company in order for the Group to manage and operate the Project Company's cemetery business. By way of the structure contracts and the contractual agreements contemplated thereunder, the Company had nominated a member of the Group's senior management who is a PRC citizen to hold its 51% equity interest in the Project Company. In October 2011, in compliance with the relevant PRC rules and regulations, the 51% equity interest of the Project Company was transferred from the nominee to the Group and the Company directly controls, operates and manages the business of the Project Company since then.

The Group, via the Project Company, holds Project Land which granted land use right with an aggregate site area of approximately 647,715.1 square meters ("sq. m."). designated for the cemetery operation. As at 30 June 2012, approximately 142,503 sq. m. has been developed for the cemetery which includes burial sites, columbarium, green zone and other accessories. For the period from 19 November 2010, the date on which the Project Company was acquired by the Group, to 31 March 2011, the Project Company sold 320 burial sites and 26,000 columbarium niches with an average selling price of approximately RMB44,800 and approximately RMB3,610 each respectively. For the year ended 31 March 2012, the Project Company sold 1,049 burial sites with an average selling price of approximately RMB50,300 per burial site. No columbarium niches were sold during the year ended 31 March 2012.

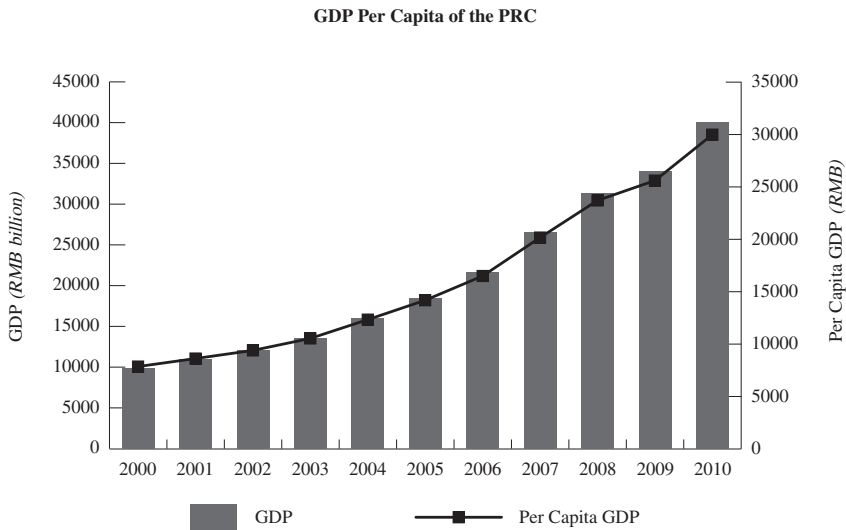
As advised the management of the Company, it has been the objective of the Group to become a market leader and to build up national brand name in the PRC cemetery industry and the strategies of the Group to expand its cemetery business by generic growth and by acquisitions and to provide one-stop service from cemetery development to funeral and ancestral worship services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group is confident that the cemetery business in the PRC has great potential. Upon Completion, the Company will indirectly own 98.38% equity interest of the Project Company and the Enlarged Group will be able to enjoy higher market share in the PRC, particularly in Zhejiang Province, and the additional share of earnings which are expected to generated by the Project Company. The Enlarged Group, however, is also committed to continue investing in the Project Company with the Enlarged Group’s long-term commitment to continue to focus on its cemetery business.

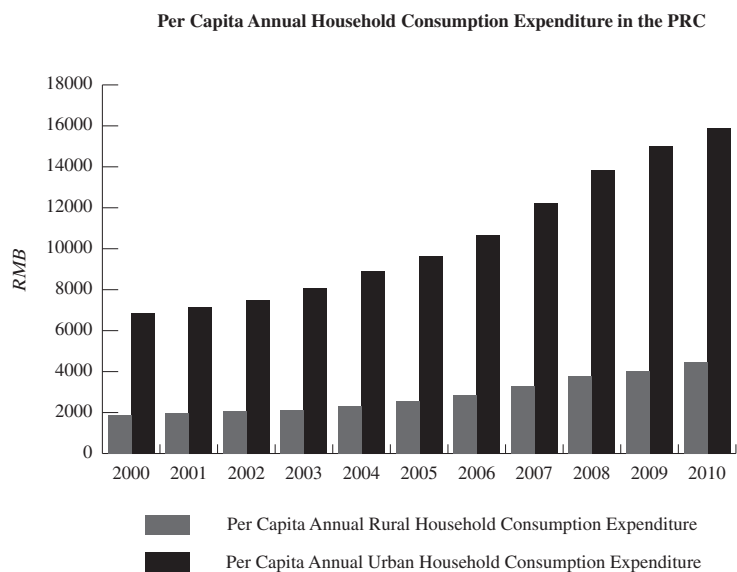
Cemetery Industry in the PRC

Over the years, the nominal Gross Domestic Product (“GDP”) of the PRC increased from approximately RMB9,921.4 billion in 2000 to approximately RMB40,120.2 billion in 2010. The nominal GDP of the PRC increased by 17.69% in 2010 as compared to 2009 and with a CAGR of approximately 15.0% from 2000 to 2010. The chart below illustrates the growth of the PRC’s GDP and GDP per capita during the period from 2000 to 2010.



Source: China Statistical Yearbook 2011

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER



Source: China Statistical Yearbook 2011

The population of the PRC increased from approximately 1.27 billion in 2000 to approximately 1.34 billion in 2010, representing an increase of CAGR of approximately 0.54%. According to the China Statistical Yearbook 2011, the population over the age of 65 in the PRC was approximately 6.96% and 8.87% of the total population of the PRC for 2000 and 2010 respectively, representing an increase of approximately 27.44%. The mortality rate of the PRC for 2000 and 2010 were 0.645% and 0.711% respectively, representing an increase of 10.23%. The total population, population over the age of 65 and the mortality rates of the overall PRC, Zhejiang Province, Shanghai Province and Jiangsu Province, the surrounding province/city of the Project in 2010 are shown in the table below:

	2010			
	PRC	Zhejiang	Shanghai	Jiangsu
Population ('000)				
Total	1,340,091	54,430	13,020	78,690
Over 65	118,830	5,080	2,330	8,570
Mortality rate (%)	0.711	0.554	0.507	0.688

Source: China Statistical Yearbook 2011

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

From the above table, Zhejiang, Shanghai and Jiangsu were all suffer from growing trend of aged population. Although the mortality rates of Shanghai and Jiangsu Province dropped in 2010, the increase in number of population led to the increase in number of death.

According to the National Bureau of Statistic of China, the population at or over the age of 65 in the PRC for 2010 was 118.33 million or approximately 8.87% of the total population. The PRC economic development has given rise to better living standards and improved affluence of its population. This is evidenced by the gradual increase in the average income level of the population in the PRC. According to China Statistical Yearbook 2011, the per capita annual disposable income of urban households in the PRC enjoyed a percentage increase of approximately 86.81% from 2000 to 2010, while the per capita annual net income of rural households in the PRC has a percentage increase of approximately 77.67% during the same period.

Funeral and interment enterprises in the PRC increased from 3,284 enterprises in 2005 to 3,951 enterprises in 2010, representing an increase of CAGR of 3.77%. According to the China Statistical Yearbook 2011, there were approximately 4.50 million and 4.74 million bodies cremated remains during 2005 and 2010 respectively. Whereas, approximately 548,000 persons and 605,000 persons were buried during 2005 and 2010 respectively, representing an increase of CAGR of 2.0%. The number of funeral and interment enterprises, cremated remains of the overall PRC, Zhejiang Province, Shanghai Province and Jiangsu Province, the surrounding province/city of the Project in 2010 are shown in the table below:

		2010		
	PRC	Zhejiang	Shanghai	Jiangsu
Number of funeral and interment enterprises	3,951	240	79	234
Cremated remains during the year (10,000 bodies)	474.1	31.6	14.8	47.6
Number of the buried during the year (10,000 persons)	60.5	3.8	5.3	6.3

Source: China Statistical Yearbook 2011

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

From the table above, Zhejiang, Shanghai and Jiangsu accounted for 6.07%, 2.0% and 5.92% of the total funeral and interment enterprises in the PRC respectively. The number of persons that are cremated are higher than buried.

Shareholders should note the China Statistical Yearbook 2011 is the only reliable source available on hand.

The Director considered funeral services have been a very important component in Chinese social and religious systems. It has been a long tradition in the PRC to hold public decorum and show respect to the deceased. In recent years, the PRC has experienced quick economic development, with concomitant increase in national income. The Directors believe there is potential growth on the development of cemetery business due to growing trend of aged population and economic improvement in the PRC.

Regulations of the funeral services industry in the PRC

According to the PRC legal opinion issued by the PRC legal advisor of the Group, the Regulations on Funeral and Interment Control of the People's Republic of China (the "Regulations") promulgation by the State Council of the PRC which came in to effect on 21 July 1997, stated as follow:

The Ministry of Civil Affairs under the State Council is responsible for funeral and interment control in the PRC. The Civil Affairs Bureau of local People's Governments at or above the county level is responsible for funeral and interment control under their respective jurisdictions.

Establishments of funeral parlour and crematorium are to be proposed by Civil Affairs Bureau of local governments of counties, prefecture-level cities and autonomous prefectures and are subject to the approval of the respective local governments; establishments of funeral service centre and cinerary hall are subject to the approval of Civil Affairs Bureau of local governments of counties, prefecture-level cities and autonomous prefectures; which establishments of cemetery are to be agreed by the Civil Affairs Bureau of local governments of counties, prefecture-level cities and autonomous prefectures and are subject to approval of the counterparts on the level of provinces, autonomous regions and municipalities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

No institutions or individuals shall establish any funeral and interment facilities without prior approval from designated authorities.

Unapproved establishments shall be banned and required to be restored to its original condition jointly by the Civil Affairs Bureau, constructions and lands management. Any incomes derived are to be forfeited and a fine ranging from one time to three times of the incomes shall be imposed.

Project Company

The Project Company was established on 26 April 1999 with limited liability and registered capital of RMB85 million fully paid which principally engaged in developing and operating cemetery in Hangzhou, the PRC since 2000. The operation of cemetery by Project Company involves the layout design and construction of the cemetery and the sales of burial sites and columbarium niches to customers. There are four major types of burial sites including standard burial sites, high-end burial sites, artistic burial sites and family-based burial sites provided by the Project Company. The Project Company also comprises of funeral operation and management of burial sites. The Project Company has obtained Burial Service Certificate (公墓服務證) on 7 April 2000 issued by Zhejiang Civil Affairs Bureau (浙江省民政廳) which allows the Project Company to operate funeral and cemetery business. The Project Company is the holder of the Project Land. The Company completed the acquisition of 41.2% of the equity interest of the Project Company at a consideration of approximately HK\$87,186,000 (valuation on completion of the said acquisition). The Company further invested into the Project Company and the equity interest held by the Group increased by 9.8% to 51% through capital injection of RMB80 million (equivalent to approximately HK\$96,560,000) to increase registered capital from RMB5 million to RMB85 million, representing an implied aggregate valuation of approximately RMB360.29 million as in the Previous Acquisition.

The Project Land is an allocated land of approximately 974 Chinese Mu (equivalent to approximately 647,715.1 sq. m.) administratively allocated by PRC government with no expiry period as specified on the land use right certificate issued by the Land and Resources Bureau of Hangzhou City on 5 June 2003 and is designated for the use as cemetery. The main income stream of the Project Company is from the sales of burial sites and columbarium niches and its relevant management fees. In 2011, the Project Company sold 1,049 burial sites with an average selling price of approximately RMB49,510 per burial site, an increase of approximately 5.79% in selling price as compared to 2010. As advised by the Project Company, 613 burial sites were sold for the six months ended 30 June 2012 with average

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

price of RMB44,362 each. On 29 November 2010, the Project Company entered into a letter of intent with a customer, who is a PRC government body to acquire approximately 60,000 columbarium niches from the Project Company. As at 30 June 2012, approximately 142,503 sq. m. has been developed and approximately 12,400 and 26,000 burial sites and columbarium niches respectively were sold since the commencement of operation in 2000. As advised by the management of the Company, the retail sales of burial sites were sold through the means of the Project Company's retail outlets and columbarium niches have been sold to a PRC government body in Hangzhou City. As at 30 June 2012, the Project Company has approximately 1,770 burial sites and 37,000 columbarium niches in the Project Land available for sale.

Immediately after completion of the acquisition of 41.2% equity interest of the Project Company, the Group has nominated four members of its senior management, including Directors in the board of directors of the Project Company which are mainly responsible for the overall development, strategic planning and management of Project Company.

Financial performance of the Project Company has been consolidated by the Group since 19 November 2010. As per Appendix IV to the Circular, Set out below is a summary of audited financial statement (prepared in accordance with HKFRS) in relation to Project Company for the two years ended 31 December 2010 and 2011 and six months ended 30 June 2012:

<i>Expressed in RMB'000</i>	For the year ended 31 December			For the six months ended 30 June	
	2009*	2010*	2011*	2011[#]	2012*
Sales of burial sites	41,840	44,463	51,936	25,430	27,193
Sales of columbarium niches	–	54,150	39,710	39,710	–
Management fee	–	–	452	203	261
Revenue	<u>41,840</u>	<u>98,613</u>	<u>92,098</u>	<u>65,343</u>	<u>27,454</u>
Profit attributable to owners of Project Company	<u>8,955</u>	<u>24,447</u>	<u>14,521</u>	<u>11,122</u>	<u>6,921</u>
Net asset value	<u>7,231</u>	<u>26,241</u>	<u>82,043</u>	<u>117,363</u>	<u>80,305</u>

* *audited figures*

[#] *unaudited figures*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The audited revenue and profit attributable to owners of the Project Company was approximately RMB98.6 million and RMB24.5 million respectively for the year ended 31 December 2010 and approximately RMB92.10 million and RMB14.5 million respectively for the year ended 31 December 2011. The revenue and profit after tax of the Project Company was approximately RMB27.5 million and RMB6.9 million for the six months ended 30 June 2012. The Project Company did not generate any revenue from the sale of columbarium niches after 31 March 2011 due to project delay. As advised by the Directors, in or about mid-May 2012, a customer, who is a PRC government body and has been in business relationship with the Project Company since 2009, wrote to the management of the Project Company that it would not accept delivery of possession of the columbarium niches because the ancillary infrastructure and facilities of the columbarium including the car parks and public utilities were yet to be totally completed. As such, the Company is unable to recognize the revenue from the sale of columbarium niches until such customer agrees to accept delivery of possession of the columbarium niches. Pursuant to the announcement of the Company dated 9 November 2012, construction of the ancillary infrastructure and facilities of the columbarium had been completed and the customer had confirmed with the Project Company that it would accept the delivery of possession of total of 37,000 columbarium niches before the end of 2014, namely, 13,000 columbarium niches during the year 2012, 12,000 columbarium niches during the year 2013 and the remaining during 2014.

Major costs and expenses of the Project Company included selling expenses and administrative expenses of approximately RMB11.4 million and RMB31.4 million respectively for the year ended 31 December 2011. For the six months ended 30 June 2012, major costs and expenses of the Project Company included selling expenses and administrative expenses of approximately RMB3.98 million and RMB7.78 million respectively.

As shown in the above table, net assets value of the Project Company was approximately RMB82.04 million as at 31 December 2011. The current assets of the Project Company primarily comprised of development and formation costs of the Project, trade receivables, and prepayments and other receivables of approximately RMB64.56 million, RMB38.80 million and RMB36.27 million respectively. Current liabilities mainly consist of trade payables of approximately RMB21.40 million, accrued liabilities, other payables, deposits received and receipts in advance of approximately RMB23.40 million and interest-bearing bank borrowings for the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

development of the Project Land and working capital of the Project Company of approximately RMB35.0 million, amounts due to shareholders of approximately RMB21.79 million and tax payables of approximately RMB21.78 million. Based on its audited account, the net asset value of the Project Company as at 30 June 2012 was approximately RMB80.31 million. The current assets of the Project Company as at 30 June 2012 primarily comprised of development and formation costs, pledged bank deposits, and prepayments and other receivables of approximately RMB115.18 million, RMB30.0 million and RMB18.66 million respectively. Current liabilities of the Project Company as at 30 June 2012 mainly consist of trade payables of approximately RMB23.33 million, accrued liabilities, other payables, deposits received and receipts in advance of approximately RMB20.89 million, interest-bearing bank borrowings for the development of the Project Land and working capital of the Project Company of approximately RMB78.0 million, amount due to shareholders of approximately RMB20.90 million and tax payables of approximately RMB21.66 million. Capital commitment amounting to RMB8.0 million as at 30 June 2012.

2. *Business plan of the Project Company*

The total area of the Project Land is approximately 647,715.1 sq. m. As at 30 June 2012, out of this total site area, approximately 142,503 sq. m. has been developed as a cemetery which includes burial sites, columbarium, green zone and accessories. We have reviewed the initial business development plan of the Project Company in relation to the Project Land, the Project Company will continue to expand the remaining Project Land to construct burial sites for sale to its customers and management services at the cemetery.

Under the business plan of the Project Company, the Project Company will continue to expand the existing cemetery and to construct burial sites on the Project Land. It comprises the sales of approximately 230,000 burial sites of standard, high-end, artistic and family burial sites in the Project Land over the next 30 years. The business plan also comprises of future operation and management of the burial sites. The revenue of the Project Company will continue to be mainly derived from the sales of burial sites and columbarium niches and related management fee income. As advised by the Directors, subject to compliance with the prescribed formalities, rules and regulations, funeral and ancestral worship services will also be provided by the Project Company in the next few years. It is expected that net cash inflows generated by the Project Company and bank loans will continue to be used to fund the capital expenditure and working capital of the Project Company. The Project Company will apply for banking facilities as and when needed. As at the date of the Agreement, save as disclosed above, the Project Company has no financing plan for its cemetery business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the purpose of our due diligence, we have conducted a site visit of the Project Land and discussed with the local management of the Project Company. We noted that the Project Land has sufficient land capacity to develop approximately 230,000 burial sites in the Project Land over the next 30 years. For the sales of burial sites, the Project Company has over 50 staff in the marketing team and over ten sales points in Hangzhou, the PRC. We also noted that there is an upward trend in the revenue and sales quantity on the sales of the burial sites since the commencement of operation in March 2000 to October 2012. The Project Company began to sell its artistic burial sites and other burial sites at a price above RMB40,000 in 2007 and recorded a CAGR of 14.56% on its total sales of artistic burial sites and burial sites that are above RMB40,000 from 2007 to 2011. Since commencement up to 30 June 2012, the utilisation rate of the burial sites is approximately 5.33% of the total of Project Land. Based on the above, in particular (i) the sufficient land capacity; (ii) manpower of the Project Company; and (iii) historical sales of the Project Company, we consider that the business plan of the Project Company is a feasible plan.

3. *Rationale behind the Agreement and benefits to the Group*

Zhejiang has a GDP of approximately RMB2,772.2 billion in 2010 as compared to approximately RMB1,571.8 billion in 2006 with a CAGR of 15.24%. The population of Zhejiang was approximately 54.4 million in 2010, an increase of 16.2% compared with the population in 2000. In Zhejiang, approximately 9.33% of the population is over the age of 65 in 2010, which accounted for 4.28% of the total population in the PRC is over the age of 65 in 2010 as compared to surrounding areas of 1.96% and 7.21% of the total population in the PRC over the age of 65 in 2010 in Shanghai and Jiangsu respectively. Consumption expenditure per capita of Zhejiang in 2010 was RMB8,928 as compared to approximately RMB6,057 in 2006. Whereas, consumption expenditure per capita of Shanghai and Jiangsu in 2010 was approximately RMB10,210 and RMB6,542 respectively as compared to approximately RMB8,006 and RMB4,135 respectively in 2006. The PRC's economic development has given rise to better living standards and improved affluence of its population. To the best of the Director's knowledge, information and belief having made all reasonable enquires, the cemetery operated by Project Company is the only cultural memorial park in Hangzhou. The Directors consider the Acquisition can intensify the Group's opportunity to further develop into the funeral services industry and allow the Group to participate in the only cultural memorial park in Hangzhou.

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According to 2012 Annual Report, the Group has a view to continue to focus its cemetery business by further developing its existing cemetery and by acquisitions to minimize potential business uncertainty i.e. continued expansion of business. The Directors therefore consider the Acquisition is in line with the Group's strategic direction.

We have discussed with and understood from the management of the Company that the Group is confident that cemetery business in the PRC has great potential because (a) there is a continuous demand for burial sites (including burial sites and columbarium niches) and the related services; and (b) cemetery land supply in the PRC is limited. The Group will endeavor to explore investment opportunities in the cemetery business to reap a satisfactory return for the shareholders.

Having considered that the Acquisition (i) avails the Group to enjoy potential benefit in cemetery business; (ii) can intensify the Group's opportunity to further develop into the funeral services industry and allow the Group to participate in the only cultural memorial park in Hangzhou; and (iii) growth of business of the Project Company and ample growth opportunities due to the growing trend of aged population in the PRC, we concur with the Directors that there is a commercial justification for the Company to enter into the Agreement.

4. *The consideration and valuation on the Project Company*

As set out in the Letter from the Board, the total consideration for the Sale Share under the Acquisition is HK\$430,000,000. When determining the consideration under the Acquisition, although the Company has initially relied on the preliminary valuation of the business of the Project Company prepared by a PRC valuation company as provided by the Vendor, completion of the Agreement is conditional and subject to the receipt of a valuation report (in substance and form satisfactory to the Purchaser) from a valuer of international repute on the business of the Project Company (including without limitation the value of the Project Land) confirming that that value of the business of the Project Company (the "Project") is not less than RMB750,000,000. To this extent, the Company has engaged LCH (Asia-Pacific) Surveyors Limited, an independent Professional Valuer (the "Valuer") to value the Project as at 30 June 2012 amounted to RMB750,000,000. In assessing the fairness and reasonableness of the valuation of the Project, we have reviewed the valuation report in relation to the valuation of the going concern business of the Project Company as at 30 June 2012 and have discussed with the Valuer on the methodology of, and basis adopted and assumptions used in arriving at the valuation.

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(a) Valuation methodology

According to the valuation report, there are several conventional capital investment evaluation techniques, namely the payback period, the rate of return method and the discounted cash flows (“DCF”) method:

- Payback period is designed to serve the purpose of comparing between two capital investment projects simultaneously, and to help examine a sound investment decision between the two projects by comparing the period to recover cost of investments. This method is appropriate for entity where short term cash flows is more important than long term cash flows; and
- Return on capital employed is designed to serve the purpose of comparing between two capital investment projects simultaneously, and to help examine a sound investment decision between the analysed projects by comparing the rate of return on capital employed. This method is based on average profit over a period of time, not cash flows and can only be used when there are benchmarks to compare;
- DCF method is designated to serve the purpose of evaluating the total sum of money to be received during the useful life of a project by investing certain amount of capital after considered the time value of money.

As per Appendix VI to the Circular, Given that (i) the Project did not have other capital investment projects for comparison; and (ii) did not have reasonable, market-orientated benchmarks published by any recognized authorities in China, the Valuer considers the payback period method and return on capital employed inappropriate. We also discussed with the Valuer that (i) only approximately 20% of the Project Land was developed; (ii) limited earnings can be reflected on the developed Project Land; and (iii) no book value on the Project Land which was administratively allocated by the PRC government for the cemetery operation, hence the Valuer considers the market approach inappropriate. In considering the DCF method as the most appropriate to assess the profitability of the Project, the Valuer has used the net financial present value analysis. By using this method, the expected cash flows on the Project are set out year by year and brought to a present value by use of present value factors at the appropriate rate.

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We understand from the Valuer that the first step of the evaluation is to estimate the economic income projection. We have discussed with the Valuer that the projections of the future revenues used in this evaluation were based on the business plan of the Project Company provided by the Company. We also understand from the Valuer that the next step is to estimate the appropriate present value factor i.e. discount rate. We have also discussed with the Valuer that they have adopted the market-derived discount rate by the capital asset pricing model by using market data of listed companies in Asia with business similar to the Project to estimate the discount rate.

(b) Factors considered in the valuation

We understand from the valuation report that the Valuer has considered the factors, including but not limited to, as follow:

- (i) the nature and the characteristics of the Project, including the historical background and the ground work for the Project;
- (ii) the use of the Project as part of a going concern business of the Project Company;
- (iii) the cost and financial information as contained in the business plan of the Project Company;
- (iv) the projected future returns mentioned in the business plan of the Project Company and based on the assumptions made by the management of the Company;
- (v) the nature of the Project such as the remaining life and its characteristics;
- (vi) the interest and general characteristics of the Project Land;
- (vii) the Project Company is able to obtain all corresponding licences as part of a going concern business;
- (viii) the quality of the proposed facilities;

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- (ix) the Project Company is able to raise fund to the construction of a cemetery and its subsequent operations;
- (x) the capability and determination of the Project Company to follow the planned development schedule in the business plan of the Project Company;
- (xi) the capability and determination of the Project Company to maintain its proposed clientele;
- (xii) the capability and determination of the Project Company to follow the government and industry management quality standards and to review/up lift its standards to catch the industry need from time to time;
- (xiii) the capability and determination of the legally interested parties in the Project to protect its operations against any disruption of the normal operation in the Project;
- (xiv) the capability and determination of the Project Company to maintain a cost effective and stable supply chain of the materials to produce its products;
- (xv) the capability and determination of the Project Company to maintain an experienced management team as part of a going concern business;
- (xvi) the economic and industry data affecting the Project and the cemetery business in the PRC; and
- (xvii) the market-derived investment returns of similar business.

Independent Shareholders should note that, as stated in the valuation report, the valuation was prepared in accordance with the reporting standards published by the International Valuation Standards Council and based on the relevant financial information, business plan as well as assumptions, analysis and judgement made relating thereto. Based on our review and discussions with the management of the Company and the Valuer, no major factors has been identified which cause any doubts to the reasonableness of the principal assumptions underlying the valuation.

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(c) Evaluation and assumptions

For our due diligence purpose, we have requested, obtained and reviewed the supporting documents for the valuation of the Project from the Valuer. We also obtained and reviewed the business plan of the Project Company and discussed with the Valuer and the management of the Company which the major assumption of the valuation report, including but not limited to, as the following:

Revenue	Total revenue comprises of (i) the sales of burial sites and columbarium niches; (ii) management fee of burial sites and columbarium niches; and (iii) funeral services.
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According to the management of the Company, there are 37,000 units of columbarium niches remaining as at the date of valuation on 30 June 2012, and are assumed to be sold on or before 2014, namely 13,000, 12,000 and 12,000 columbarium niches during the year 2012, 2013 and 2014 respectively. It is assumed that an addition of approximately 230,000 burial sites are expected to be developed on the Project Land, and are assumed to be sold on or before 2044. After taking into reference of and considering (i) the aging population and increase of mortality rate; (ii) the expected inflation in China; and (iii) the expected GDP; (iv) the market price of land and burial sites.

A 10-year management fee of RMB450 per burial sites purchased is currently charged to customers and new customers will be subjected to a price adjustment on the management fee reference to historical CPI of China ranging from -0.68% to 5.9% in the period of 2005 to 2011. A 10-year management fee of RMB190 per columbarium niches is expected, and no price adjustment is assumed.

The Project Company expected to start its funeral services in 2013, and initially, 30% of the burial site’s customer was assumed to be using their funeral services.

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Gross margin According to the forecast provided by the Project Company, the cost of sale has considered the development and formation cost, cost of raw materials as well as other expenses. The gross margin for the year up to 2014 in which sales of burial sites and columbarium niches are expected to take place. Thereafter, there will be no sales of columbarium niches and the gross margin are expected to improve slightly due to the gross margin rate for burial sites is higher than that of the columbarium sites.

According to the financial result of the Project Company for 2011, the gross margin is 70.26%.

Income tax Corporate income tax policy (25%) was applied in the DCF analysis.

Net profit margin The expected net profit margin is derived from the revenue minus the cost of sale and other operating expenses.

According to the accountant's report of the Project Company in Appendix IV of this Circular, the net profit margin are approximately 21.40%, 24.79% and 15.77% for the financial year ended 31 December 2009, 2010 and 2011 respectively. The net profit margin for the six months ended 30 June 2012 is approximately 25.21%.

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We also reviewed the Project Company's estimation on capital expenditure and working capital, we noted the capital expenditure is expected to be approximately RMB47 million for the next five years mainly on the development and formation cost of the cemetery and the working capital will be maintained at an adequate level to meet business needs. As advised by the management of the Company in relation to the financing plan of the Project Company that the net cash inflows generated by the Project Company and bank loans will continue to be used to fund the capital expenditure and the working capital of the Project Company. The Project Company will apply for banking facilities as and when needed. As at the Latest Practicable Date, save as disclosed above, the Project Company has no financing plan for its cemetery business.

We noted the Valuer has taken into account a number of factors including (i) risk free rate; (ii) beta of the asset; and (iii) expected market return; and (iv) other risk premium. In estimating the discount rate in the evaluation, the Valuer adopted the market-derived discount rate by CAPM model, a model for pricing an individual security (asset) or a portfolio, by using the market data of listed companies in Asia that are engaged in the cemetery business. The Valuer selected 9 comparable companies listed on exchanges in Japan, Hong Kong and Taiwan. As advised by the Valuer, the discount rate used in the evaluation is within the range of discount rates observed for those selected comparable companies by referencing the estimations extracted from Bloomberg, and we are advised that the selected comparable companies are listed companies engaged in cemetery business which is in line with that of the Project.

The Valuer confirmed that the Valuation is based on accepted valuation procedures and practices.

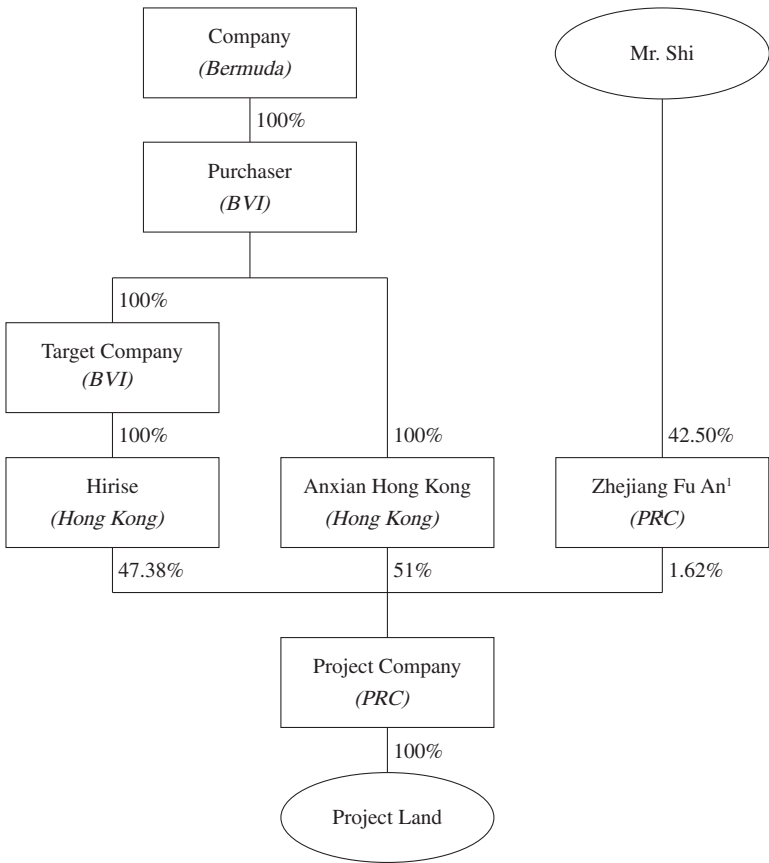
Having considered the above, we concur with the Directors' view that the evaluation and major assumptions of the valuation, namely revenue, gross margin, income tax and net profit margin are fair and reasonable.

5. *Terms of the Agreement*

On 18 September 2012, the Purchaser entered into Agreement with the Vendor, pursuant to which, the Purchaser conditionally agreed to acquire from the Vendor the Sale Share.

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Upon Completion, the Company’s equity interest in the Project Company will increase from 51% to 98.38%. The corporate structure of the Company and the Target Group upon Completion is illustrated below:



Notes:

- 1. Zhejiang Fu An is a limited liability company incorporated under the laws of the PRC which is owned as to 42.5% by Mr. Shi, 10% by Mr. Shi Jun, 5% by Ms. Shen Mingzhen, 5% by Ms. Chen Jinjuan, 5% by Mr. Lu Guofu, 5% by Mr. Pan Guoqiang and the remaining 27.5% by the other senior management of Zhejiang Fu An and other investors.

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Basis of consideration

Pursuant from the Letter of the Board, the total consideration for the Sale Share under the Acquisition is HK\$430,000,000 of which HK\$40,000,000 will be paid in cash within three days from the execution of the Agreement as the refundable deposit. Upon Completion, (i) HK\$10,000,000 will be paid in cash; (ii) Promissory Note in the principal amount of HK\$50,000,000 will be issued by the Company to the Vendor; and (iii) Convertible Notes in the principal amount of HK\$330,000,000 will be issued by the Company to the Vendor. The cash portion of HK\$10,000,000 of the consideration will be funded by the internal resources of the Group. A sum of HK\$40,000,000 was paid to the Vendor on 21 September 2012 as refundable deposit and the remaining HK\$10,000,000 will be paid to the Vendor upon Completion of the Agreement. Based on the bank statement of the Group, as at 28 September 2012, the Group had cash balance of approximately HK\$19,600,000 which is sufficient to fund the remaining HK\$10,000,000 portion of the consideration under the agreement. The Promissory Note will be issued to the Vendor upon Completion and it is expected that on maturity the Promissory Note will be settled by net cash inflows generated by the Project Company.

As disclosed in the Letter from the Board, the consideration was arrived at based on normal commercial terms after arm's length negotiation between the parties to the Agreement and by reference to (a) the preliminary valuation of the business of the Project Company prepared by a PRC valuation company of RMB840,000,000 (equivalent to approximately HK\$1,028,000,000) as at 30 June 2012, as provided by the Vendor; (b) the total amount of consideration payable by the Group under the Previous Acquisition; (c) the expected costs and expenses for the Acquisition; and (d) other factors as set out in paragraph headed "Reasons for Entering into the Agreement" in the Letter from the Board. According to Appendix VI, the valuation of the business of the Project Company is RMB750,000,000.

As discussed with the Valuer, most of the burial sites in other cemeteries in Hangzhou were sold-out according to the business plan of the Project Company, thereby competition is lower, and as such the management of the Project Company has more confidence in a higher growth rate on quantity of the burial sites to be sold by the Project Company. Moreover the increase in selling price which the historical average selling price per burial site was approximately RMB39,000 and RMB49,000 in 2009 and 2011 respectively. Although the selling price per burial site has decreased slightly to RMB44,000 in the first half of 2012, however the current selling price of burial site is still higher than the selling price at the last valuation date in 30 June 2010.

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The Directors considered that (i) the value of the business is expected to be not less than RMB750,000,000; (ii) the Project Company has been selling burial sites to customers and generating profit since 2007; (iii) the construction of the ancillary infrastructure and facilities of the columbarium has recently been completed and the customer, who is a PRC government body, had confirmed with the Project Company that it would accept the delivery of possession of total of 37,000 columbarium niches before the end of 2014, after which the Company could recognize the revenue from sale of the columbarium niches; (iv) the Project Company will continue to develop the Project Land and to construct additional burial sites for sale and to provide management services at the cemetery and (v) there will be a continuous demand for burial sites in the PRC.

Having considered the above and based on the valuation by the Valuer, we concur with the Directors' view that the consideration for the Acquisition is fair and reasonable.

Terms of Promissory Note

As part of the consideration payable for the Acquisition, the Company will issue the Promissory Note in the amount of HK\$50,000,000 to the Vendor upon Completion.

The Promissory Note bears an interest of 2% per annum, with maturity of 36 months after the date of issuance and the Purchaser shall have the right at its sole discretion to repay at any time the full or part of the principal amount of the Promissory Note. No interest will be incurred if the Promissory Note is fully repaid prior to its maturity.

Up to the Latest Practicable Date, the Board has no concrete plan or intention to repay in full or in part of the principal amount of the Promissory Note before the maturity.

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The Promissory Note will be issued to the Vendor upon completion and it is expected that on maturity the Promissory Note will be settled by net cash inflows generated by the Project Company. Considering that (i) the Project Company has been selling burial sites to customers and generating profit since 2007; (ii) the construction of the ancillary infrastructure and facilities of the columbarium have recently been completed and the relevant customer accepted the delivery of possession of the columbarium niches of a total of 37,000 columbarium niches before end of 2014, after which the Company could recognise the revenue from the sale of the columbarium niches; (iii) the Project Company will continue to develop the Project Land and to construct additional burial sites for sale and to provide management services at the cemetery; and (iv) there will be a continuous demand for burial sites in the PRC and on the understanding that in the absence of unforeseen circumstances, the Board believes that the Project Company will be able to generate net cash inflow within the next three years which is enough to settle the Promissory Note upon its expiration. Based on the above, the Company has no current alternative financing plan for the settlement of the Promissory Note.

In order to further assess the fairness and reasonableness of the Promissory Note with respect to maturity and interest rate, we have conducted a search, on a best effort basis, on all issues of promissory notes in relation to (i) acquisitions by listed companies in Hong Kong involving the issue of promissory note as part of the consideration; (ii) issuance of promissory note by listed issuers on the Main Board of the Stock Exchange from 1 January 2012 up to and including 17 September 2012, being the last trading date prior to the signing of the Agreement (the “PN Comparables”). The purpose of the PN Comparables is to provide reference on the recent market practice in determining the interest rate of the promissory note. Given that determination of interest rate is primarily affected by market sentiment as well as the overall stock market environment which are ever-changing, we have chosen the transactions as aforesaid during 1 January 2012 up to and including 17 September 2012, being the last trading date prior to the signing of the Agreement in order to present the most recent market practice in determining the interest rate and term of maturity and compare the same with interest of the Promissory Note.

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We note that during 17 September 2011 up to and including 17 September 2012, being the Last Trading Day, companies listed in Hong Kong with business similar to the Company has no promissory note issuance. We consider the PN Comparables appropriate although (i) the business, operation and prospects of the Company are not the same as the issuers of the PN Comparables and we have not conducted any in-depth investigation into the business and operations of the issuers of PN Comparables; and (ii) principal terms of the promissory note issuance (i.e., principal amount, term of maturity and annual interest rate) should be considered in whole rather than in isolation. To the best of our knowledge, effort and endeavor and based on our search conducted according to the abovementioned criteria, we consider that the list of PN Comparables is an exhaustive list of those fair and representative comparables for comparison purpose. Key findings on the principal terms of the PN Comparables are summarised in table below:

Date of announcement	Company (stock code)	Principal amount (HK\$ million)	Maturity (years)	Annual interest rate (%)
10/1/2012	Sino Union Energy Investment Group Ltd (346)	184	0.5	Nil
1/2/2012	CCT Tech International Ltd (261)	67	5	3
14/2/2012	China Renji Medical Group Ltd (648)	165	3	4
5/3/2012	Climax International Co Ltd (439)	55	2	Nil
16/5/2012	New Times Energy Corporate Ltd (166)	10	2	3
17/8/2012	China Solar Energy Holdings Limited (155)	23.33	2	Nil
	Maximum	184	5	4
	Minimum	10	0.5	Nil
	Average	84.39	2.42	1.67
	Median	61	2	1.5
	The Company	50	3	2

As illustrated above, during the period, the PN Comparables includes six listed companies on the Main Board of the Stock Exchange with promissory notes issued.

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(i) Maturity and interest rate

The PN Comparables have a term to maturity ranging from about six months to five years with the principal amount issued ranging from HK\$10 million to HK\$184 million and have an annual interest rate of 0% to 4% per annum. The average annual interest of PN Comparables is 1.67%. The interest rate of 2% per annum of Promissory Note is within the range of relevant interest rate of the promissory notes listed on the table above and slightly above the median interest rate of the PN Comparables. We consider the terms of Promissory Note are fair and reasonable.

We have reviewed and discussed with the management of the Company on the historical financial results and business plan of the Project Company as well as the aged population and mortality rate in the PRC, we noted that (i) the Project Company has been selling burial sites to customers and generating profit since 2007; (ii) the construction of the ancillary infrastructure and facilities of the columbarium have recently been completed and a customer of the Project Company, who is a government body of the PRC confirmed the acceptance of the delivery of possession of the columbarium niches, after which the Company could recognize the revenue from the sale of the columbarium niches; (iii) the Project Company will continue to develop the Project Land and to construct additional burial sites for sale and to provide management services at the cemetery; and (iv) there will be a continuous demand for burial sites in the PRC, and based on the forecast of the Project Company, we concur with the Directors' view that the Project Company will generate enough net cash inflow within the next 36 months to settle the Promissory Note upon maturity is fair and reasonable.

Terms of Convertible Notes

The Convertible Notes with principal amount of HK\$330,000,000 has tenure of five years which may be extended to ten years in accordance with the terms and conditions of the Convertible Notes with non-interest bearing which is convertible into 3,300,000,000 Conversion Shares at the conversion price of HK\$0.10 per Conversion Share (subject to adjustment).

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Upon the exercise of any conversion rights under the Convertible Notes, the Company will allot and issue the number of Conversion Shares in respect of which conversion rights are exercised provided that no conversion right may be exercised, to the extent that the following such exercise (i) a holder of the Convertible Notes and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 29% or more of the entire issued Shares or such percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer, whichever is lower, or (ii) the Company will be in breach of the minimum public float requirement under the Listing Rules. For the avoidance of doubt, Mr. Shi Jun, the son of Mr. Shi, will be regarded as acting in concert with Mr. Shi. Holders of the Convertible Notes will have no right to redeem. The Company has no obligation to repay any outstanding principal amount of the Convertible Notes at the maturity date or extended maturity date.

The 3,300,000,000 Conversion Shares (subject to adjustment) to be allotted and issued upon full conversion represent approximately (i) 121.30% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) 54.81% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Notes at the initial Conversion Price (assuming no adjustments is made).

The conversion price of HK\$0.10 per Conversion Share represents:

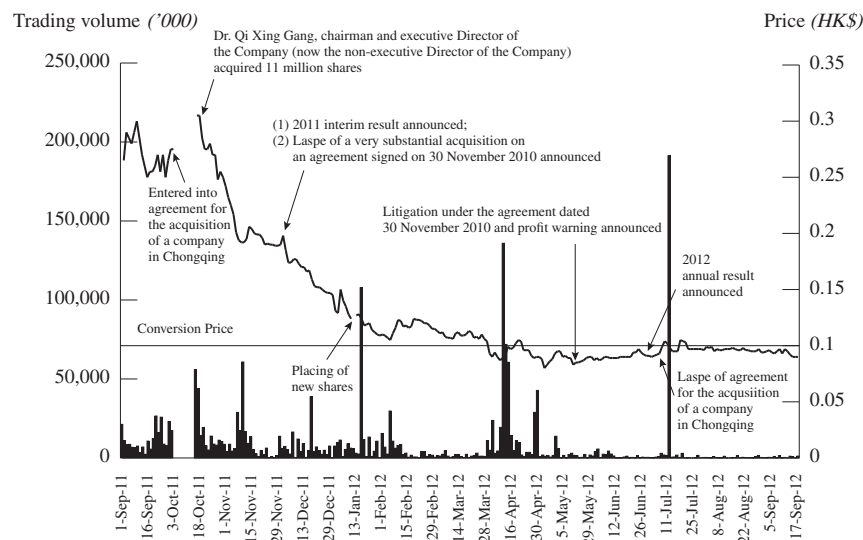
- (i) a premium of approximately 11.11% over the closing price of HK\$0.090 per Share as at the Latest Practicable Date.
- (ii) a premium of approximately 11.11% to the closing price of HK\$0.090 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 9.41% to the average of the closing prices of approximately HK\$0.0914 per Share for the last five consecutive trading days of the Shares up to and including the Last Trading Day;
- (iv) a premium of approximately 7.30% to the average of the closing prices of approximately HK\$0.0932 per Share for the last ten consecutive trading days of the Shares up to and including the Last Trading Day;

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- (v) a premium of approximately 5.23% to the average of the closing prices of approximately HK\$0.0950 per Share for the last thirty consecutive trading days of the Shares up to and including the Last Trading Day; and
- (vi) a discount of approximately 18.70% to the Group’s audited consolidated net asset value of approximately HK\$0.123 per Share based on the Group’s audited consolidated net assets attributable to the owners of the Company as at 31 March 2012.

The Directors, having considered the recent trading prices of the Shares, the initial conversion price of HK\$0.10 and the prospect of the business operation of the Project Company and that of the Group as a whole, are of the view that the conversion period (i.e., five years which can be further extended for a further five years) is sufficient for the Vendor to exercise the conversion rights attached to all the Convertible Notes within the conversion period. As such, the Directors agreed with the terms of the Convertible Notes (including the automatic conversion, extension of maturity date terms and cancellation of all outstanding Convertible Notes as at the extended maturity date) and considered that such terms are fair and reasonable and in the interest of the Shareholders.

The chart below illustrates the daily closing Share price for the last 12 months period commencing from 1 September 2011 up to and including 17 September 2012, being the Last Trading Day (the “Review Period”):



Source: Infocast

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During the Review Period, the daily closing prices of the Shares ranged from HK\$0.080 to HK\$0.305 per Share. We noticed that the closing prices of the Shares had been moving downward persistently from the highest of HK\$0.305 per Share on 14 October 2011 to the lowest of HK\$0.08 per Share on 2 May 2012. The Conversion Price of HK\$0.10 per Conversion Share lies within this range. The average closing price of the Shares for the Review Period was approximately HK\$0.136 per Share, higher than the Conversion Price of the Conversion Shares of HK\$0.1 per Share which represents a discount of approximately 26.47% over such average closing price. As at the Latest Practicable Date, the Share price closed at HK\$0.090.

Having regard to the Conversion Price represents (i) a premium of approximately 11.11% over the average closing price of approximately HK\$0.090 per Share on the Last Trading Day ; (ii) a premium of approximately 9.41%, 7.30% and 5.23% over the average closing price for the last five, ten and thirty consecutive trading days of the Shares respectively, up to and including the Last Trading Day; and (iii) the historical prices of the Shares has been in a downward trend since 14 October 2011, we consider the Conversion Price is considered favourable so far as Independent Shareholders are concerned.

We summarize monthly trading record of the Company below:

Month	Lowest daily turnover (number of Shares in '000)	Highest daily turnover (number of Shares in '000)	Average daily turnover (number of Shares in '000)	Average daily turnover to total number of Shares in issue (%)
September 2011	2,315	26,540	11,785	0.52
October 2011	5,020	55,850	17,221	0.76
November 2011	180	60,740	9,669	0.43
December 2011	202	38,680	7,013	0.31
January 2012	280	107,720	11,954	0.53
February 2012	–	29,700	5,200	0.23
March 2012	300	23,760	3,104	0.14
April 2012	680	135,880	23,230	1.02
May 2012	20	13,720	2,335	0.10
June 2012	40	4,320	866	0.04
July 2012	–	191,220	9,889	0.44
August 2012	–	1,580	343	0.02
17/09/2012 (up to the Last Trading Day)	–	1,420	567	0.02

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The Shares were thinly traded during the Review Period. The highest average daily trading volume was 23,230 shares in April 2012, representing 1.02% of total number of Shares in issue. In May 2012 to the Last Trading Day, the average trading volume remained below 10,000 shares.

For the purpose of further assessing the fairness and reasonableness of the terms of the Convertible Notes, we have on a best efforts basis identified comparable convertible bonds/notes announced by issuers listed on the Stock Exchange and issued as all or part of the consideration of acquisition which also constitute connected transactions in the last 12 months up to 17 September 2012, being the Last Trading Day (“CB Comparables”) for the purpose of comparing the principal terms of the Convertible Notes with those of the CB Comparables is an exhaustive list, although the business, operation and prospects of the Company are not the same as the issuers of the CB Comparables and the principal terms of the convertible securities issuance (i.e., principal amount, term to maturity, interest/coupon rate, and conversion price) should be considered in whole rather than in isolation. Key findings on the principal terms of the CB Comparables are summarized in table below:

Agreement Date	Company (stock code)	Interest rate per annum (%)	Maturity (years)	Premium/ (discount) to share price to the average 5-day closing price up to and including the last trading day		
				Premium/ (discount) to share price as at the last trading day (%)	NAV per share	Premium/ (discount) to latest published (%)
13/9/2012	New Times Energy Corporation Limited (166)	Nil	2	2.27	4.65	(88.98)
6/9/2012	EC-Founder (Holdings) Company Limited (618)	Nil	5	–	–	58.09
24/8/2012	Chanceton Financial Group Limited (8020)	Nil	5	25.00	24.38	2778
4/7/2012	Kingwell Group Limited (1195)	5	1	95.10	101.01	220.0
25/5/2012	Media China Corporation Limited (419)	Nil	3	8.70	11.86	10.01
21/5/2012	Jiachen International Holdings Limited (1069)	Nil	3	(18.20)	(19.00)	199.25
15/5/2012	New Times Energy Corporation Limited (166)	Nil	2	(4.50)	(5.10)	(89.60)

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Agreement Date	Company (stock code)	Interest rate per annum (%)	Maturity (years)	Premium/ (discount) to share price to the average 5-day closing price up to and including the last trading day		
				Premium/ (discount) to share price as at the last trading day (%)	Premium/ (discount) to latest published NAV per share (%)	Premium/ (discount) to latest published NAV per share (%)
27/4/2012	Luen Thai Holdings Limited (311)	6.5	2	10.10	17.60	(51.86)
23/2/2012	Green International Holdings Limited (2700)	Nil	3	42.86	66.67	(79.94)
30/1/2012	China Ocean Shipbuilding Industry Group Limited (651)	3	3	30.43	45.63	N/A
12/1/2012	CVM Minerals Limited (705)	5	5	5.0	5.70	(15.31)
17/1/2012	Chiho-Tiande Group Limited (976)	4	3	51.90	53.69	(94.38)
	Minimum	Nil	1	(18.20)	(19.00)	(94.38)
	Maximum	6.5	5	95.10	101.00	2778
	Mean	2.0	3.08	20.72	25.57	258.66
	Median	3	3	9.40	14.73	(15.31)
	The Convertible Notes	Nil	5*	11.11	9.41	(18.70)

Source: The Stock Exchange

* Maturity date may be extended to a further five years in accordance with the terms and conditions of the Convertible Notes

(i) Maturity and interest rate

We note that the maturity term of the Convertible Notes of five years equals the upper end of those of the CB Comparables and we also understand that the maturity period may be extended to ten years in accordance with the terms and conditions of the Convertible Notes. We consider a longer maturity term offers the Group a longer period before the Group has to repay the outstanding principal amount of the Convertible Notes and can therefore minimize the financial burden of the Group in the near period. We also note that the Convertible Notes carry no interest whilst the CB Comparables have as high as 6.5% per annum, hence we consider the Acquisition allows the Group to obtain funding with minimal finance cost.

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(ii) Conversion Price

As illustrated from the table above, we noted that (i) the premium of the Conversion Price against the closing price of the Shares on the Last Trading Day is close to the median of the CB Comparables; (ii) the premium of the Conversion Price against the average 5-day closing price up to and including the Last Trading Day is within the range of the CB comparables (iii) the discount of the Conversion Price against the net asset value per share is within the range and lower than the median of the CB Comparables; and (iv) the Convertible Notes are interest-free. Having considered the above, we concur with the Directors' view that the terms of the Convertible Notes are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(iii) Redemption right and conversion restrictions

The Convertible Notes are non-redeemable and the Company has no right to repay an outstanding principal amount of the Convertible Notes at the maturity date or the extended maturity date. We have reviewed the principal terms of the convertible notes contemplated in the relevant transactions of the CB Comparables and are of the view that these features are different than the CB Comparables, since holders of the Convertible Notes will have no right to redeem and the Company has no obligation to repay any outstanding principal amount of the Convertible Notes at the maturity date or the extended maturity date. All outstanding Convertible Notes which are not converted at the extended maturity date will be cancelled by the Company and fully waived without any cost or converted into the debt of the Company. The terms of the Convertible Notes are nevertheless favorable to the Company on the basis that it will not create undue pressure on the Enlarged Group's liquidity. Therefore we consider that these features, as arrived at after arm's length negotiations, are in the interest of the Company and the Independent Shareholders as a whole and therefore are fair and reasonable.

It is a term of the Agreement that the conversion rights attached to the Convertible Notes are subject to the requirement that the no conversion rights may be exercised, to the extent that following such exercise (i) a holder of the Convertibles Notes and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 29% or more of the entire issued Shares or such percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer, whichever is lower; or (ii) the Company will be in breach of the minimum public float requirement under the Listing Rules. In conjunction with the no redemption right, it is also a term

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of the Agreement that any outstanding Convertible Notes which are not converted at the extended maturity date shall be deemed to be cancelled. Effectively if for whatever reason (whether as a result of the public float restriction or mandatory general offer restriction or otherwise) upon the extended maturity date, the consideration will be further downward adjusted by the cancellation of such unconverted Convertible Notes.

We consider the conversion restrictions serves to protect the Company from non-compliance of the Hong Kong Code on Takeovers and Mergers or the Listing Rules by virtue of the conversion action of the holders of the Convertible Notes. We therefore are of the opinion that the conversion restrictions are beneficial to the Company.

Based on the above, we concur with the view of the Directors that the issue of Convertible Notes is in the interest of the Company and the Independent Shareholders.

6. Dilution effects of the Convertible Notes

Assuming that there is no further issue of Shares prior to the conversion of the Convertible Notes, the shareholding structure of the Company (i) as at the date of the Share Subscription Agreement; (ii) after Completion but before the conversion of the Convertible Notes by the Vendor; (iii) after Completion and the full conversion of the Convertible Notes by the Vendor; and (iv) after Completion and the conversion of the Convertible Notes by the Vendor (assuming that the conversion restriction of the Convertibles Notes applies) are set out below:

Name	Number of Shares held directly or indirectly as at the Latest Practicable Date	Approximate percentage of the total issued share capital of the Company	Number of Shares held after Completion and full conversion of the Convertible Notes (Note 6)	Approximate percentage of the total issued share capital of the Company	Number of Shares held after Completion and conversion of the Convertible Notes, assuming that the conversion restriction applies (Note 7)	Approximate percentage of the total issued share capital of the Company
The Vendor (Note 1)	–	–	3,300,000,000	54.81%	885,888,104	24.57%
Mr. Shi (Note 2)	65,000,000	2.39%	65,000,000	1.08%	65,000,000	1.80%
Shi Jun (Note 3)	95,000,000	3.49%	95,000,000	1.58%	95,000,000	2.63%
Sub-total	160,000,000	5.88%	3,460,000,000	57.47%	1,045,888,104	29.00%
Other Shareholders						
Law Fei Shing (Note 4)	20,000,000	0.74%	20,000,000	0.33%	20,000,000	0.56%
Shen Mingzhen (Note 5)	95,000,000	3.49%	95,000,000	1.58%	95,000,000	2.63%
Public	2,445,622,600	89.89%	2,445,622,600	40.62%	2,445,622,600	67.81%
Total	2,720,622,600	100.00%	6,020,622,600	100.00%	3,606,510,704	100.00%

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Notes:

1. The Vendor is wholly-owned by Mr. Shi.
2. In addition to the 65,000,000 Shares held by Mr. Shi, Mr. Shi also holds share options representing 27,000,000 Shares.
3. Mr. Shi Jun is the son of Mr. Shi and is also an executive director of the Company. In addition to the 95,000,000 Shares, Mr. Shi Jun also holds share options representing 27,000,000 Shares.
4. Mr. Law Fei Shing is an executive Director. In addition to the 20,000,000 Shares, Mr. Law Fei Shing also holds share options representing 27,000,000 Shares.
5. Ms. Shen Mingzhen is an executive Director. In addition to the 95,000,000 Shares, Ms. Shen Mingzhen also holds share options representing 27,000,000 Shares.
6. The approximate percentage shown is for illustrative purpose only. Under the terms of the Convertible Notes, the Vendor shall not exercise the conversion rights attaching to the Convertible Notes Bonds such that (i) it and parties acting in concert with him, taken together, will directly or indirectly, control or be interested in 29% or more of the entire issued Shares or such percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer, whichever is lower, or (ii) the Company will be in breach of the minimum public float requirement under the Listing Rules.
7. As the Vendor, together with Mr. Shi Jun, cannot control or be interested in 29% or more of the entire issued Shares, less Conversion Shares will be issued by the Company to the Vendor (assuming that the remaining Conversion Shares are not issued).

As shown in the above table, the shareholding of the public Shareholders will be diluted from approximately 89.89% to 67.81% of the enlarged issued share capital of the Company. The shareholding interests of the public Shareholders in the Company would be diluted by approximately 22.08 percent point as a result of the issue and conversion of the Convertible Notes with the public float restriction. Having considered the previously mentioned factors, in particular, the terms of the Convertible Notes and the benefits of the Acquisition as previously discussed, we consider the dilution to the shareholding interests of the public Shareholders in the event that the Convertible Shares are issued is acceptable.

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7. *Risk factors*

Possible risk factors which may be faced by the Group in connection with the Acquisition are as follows:

Regulatory control

The cemetery operation business is regulated by legislation and various regulatory authorities in the PRC. The Group is required to obtain the relevant licences for the operation of cemeteries in the PRC. In this respect, the Group has to ensure continuous compliance with all applicable laws, regulations and codes in the PRC to avoid any fines or any form of sanctions. Failure to comply with the relevant laws and regulations of funeral services industry may adversely affect the Group's operation of cemeteries.

The business of the Project Company may entail significant competition

As the government of the PRC may grant further licenses for the operation of cemetery business in the future, more companies will enter into this business. In view of existing and future competition from market players, this may have adverse effect on the operating performance of the Project Company and hence affect the value of the business.

On the other hand, the average selling price for the burial sites of the Project Company may decrease over time. The Project Company believes the decrease was mainly attributable to factors including general industry price trends, market price of the land, supply and demand of burial sites, as well as increased competition in the cemetery business. Its market share could be reduced if its competitors develop or offer burial sites, services and facilities that are comparable or superior to the Project Company at a lower price. Increased competition in the future could result in price reduction, margin contraction, or other strains on its operations. If its competitors offer better quality services or better pricing than the Project Company, the revenue, market share, and result of operations of the Target Group could be materially and adversely affected. It cannot be assured that the Target Group will be able to maintain a competitive edge over its existing and future competitors.

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Funeral services industry is becoming increasingly competitive

In the PRC, the funeral services industry is composed of a number of well-established funeral services providers. To compete successfully, the Group has to provide and maintain good quality funeral services at reasonable and competitive prices. In addition, the Group must be able to promote and market itself as being distinguishable and different from its competitors. If the Group is unable to compete effectively, its financial condition, operating results and cash flows could be materially affected.

Operations of funeral services business in the PRC

The Group's operation of providing funeral services in the PRC may incur increasing regulatory risks, including:

- loss of business and revenue, property interest and equipment as a result of hazards such as expropriation, nationalization, civil disturbance and other political risks;
- the adverse effects of currency fluctuations and exchange controls, such as appreciation of RMB or devaluation of foreign currencies or other economic problems; and
- changes in law, regulations and policies on the operation of funeral services business in the PRC irrespective of whether at the central, provincial or municipal levels.

Given the increasing aging of the population of the PRC and the growing demand for funeral services in the PRC, there is no assurance that the PRC government may not impose more stringent control measures and requirements in regulating the funeral services industry and the operation of such businesses in the future.

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The Project Company may subject to legal and business risks if it fails to obtain or renew the required licenses and permits to carry on the operations

In accordance with the laws and regulations of the PRC, Project Company is required to maintain the relevant approvals, permits and licenses for its business operations. Pursuant to the PRC legal opinion, the Project Company has obtained all necessary approvals, permits and licenses in connection with its principal business activities. However, there are no assurance that the PRC authorities will not amend or revise existing laws, rules or regulations to require additional approvals, permits or licenses required for the Project Company's business and operations. If the Project Company is unable to obtain or renew these approvals, permits and licenses or to do so in a timely manner, it may not be permitted to continue to carry on its business operations, and this may materially and adversely affect its business, results of operations and financial condition.

Reliance on a customer on the sales of columbarium niches

For the two years ended 31 December 2011 and the six months ended 30 June 2012, 54.91%, 43.12% and none of the Project Company's sales was generated from sales of columbarium niches respectively. The customer, who is a government body in the PRC, is the only customer of the Group's sales of niches. Pursuant to the announcement of the Company dated 9 November 2012, the customer has accepted the delivery of possession of a total of 37,000 columbarium niches before the end of 2014, namely, 13,000 columbarium niches during the year 2012, 12,000 columbarium niches during the year 2013 and the remaining during 2014.

In the event that the customer fails to meet delivery schedule of niches as agreed mentioned in the said announcement, or in the event that the Project Company is not able to identify any new customers, the turnover and profitability of the Project Company may be adversely affected.

Uncertainty in the business plan of the Project Company

The business plan of the Project Company is dependent upon certain assumptions on future events. By nature, these assumptions are subject to certainty and therefore cannot be assured that the Project Company will be able to successfully development and expand its services, or that demand can be achieved as planned. It cannot be assured that the Project Company will successful in achieving the planned business operation, profits, development of burial sites and funeral services. If any of its business plans does not materialize as planned or delayed, its business operation may be greatly and negatively affected, which could result in a significant decrease in profit.

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The result of Project Company's business operation may experience significant fluctuation

The operating results of the Project Company may fluctuate significantly, depending upon many factors that include, but are not limited to, the following:

- changes in demand for the burial sites and funeral services and in particular, timing, amount and needs;
- changes in government policies in the cemetery business;
- the effectiveness with which the Project Company handle its business, control its cost and future business plans;
- changes in the cost and availability of labor and other inputs; and
- the ability to obtain financing in a timely manner.

The operating results of the Target Group may fluctuate from period to period, due to the above mentioned factors and other risks discussed in this section, many of which are beyond its control.

8. *Financial effect of the Acquisition on the Group*

Upon Completion, the Company will indirectly own in respect of the 98.38% issued share capital. The financial results of the Target Group will be consolidated into the accounts of the Group. The possible financial effects of the Agreement on the Group are set out below:

Earnings

As stated in the 2012 Annual Report, for the year ended 31 March 2012, the Group recorded net loss attributable to owners of the Company of approximately HK\$111.25 million. As disclosed in accountants' report on the Target Group in Appendix III, the audited net loss after tax of the Target Group for the period from 27 May 2011 to 31 March 2012 was approximately HK\$31 million as the Project Land is under development. Assuming the Acquisition take place on 31 March 2012, it is expected that the loss attributable to owners of the company will increase upon Completion due to interest expense of the Promissory Note.

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Save as disclosed in the Letter from the Board, with consideration of (i) the potential future prospects of the Enlarged Group; and (ii) the delivery of 37,000 columbarium niches before the end of 2014 to a customer, who is a PRC government body pursuant to the announcement of the Company dated 9 November 2012, the Directors are in the view that consolidating the financial results of the Target Group into the Group would have a favorable long term prospects on the Enlarged Group's earnings upon completion of the Acquisition.

Net asset value

According to the unaudited pro forma financial information of the Enlarged Group as at 31 March 2012 contained in Appendix V to the Circular, assuming the Acquisition had taken place on 31 March 2012, it is expected that the net asset value of the Enlarged Group would be approximately HK\$412.48 million upon Completion, representing a decrease of approximately 18.31%.

Gearing

As at 31 March 2012, the gearing ratio of the Group, which was calculated based on total borrowings divided by the total assets at the end of the financial year, was approximately 10.12%. Assuming the Transaction had taken place on 30 March 2012, it is expected that, as shown in Appendix V of the Circular, the gearing ratio of the Enlarged Group would be 10.82%.

Working capital

As at 30 March 2012, the Group had cash and cash balances of approximately HK\$52.10 million. Assuming the Acquisition had taken place on 31 March 2012, it is expected that, as shown in Appendix V of the Circular, the cash and cash balances of the Enlarged Group would be HK\$2.15 million which HK\$40 million was paid in cash after the execution of the Agreement and HK\$10 million will become payable upon Completion.

In light of (i) the benefits arising from the Acquisitions, details of which are set out in the paragraph headed "Rationale behind the Agreement and benefits to the Group" above; (ii) the potential future prospect of the Enlarged Group; and (iii) the delivery of columbarium niches before the end of 2014, we consider the negative impact on the financial position of the Group in the rise of gearing ratio, increase of loss, decrease of net asset value and cash and cash balances of the Enlarged Group upon Completion is acceptable.

Independent Shareholders should be noted that the abovementioned financial analyses are for illustrative purpose only and do not represent what the financial position of the Group will be upon Completion.

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9. Recommendation

We consider that the merits of the Acquisition should hinge on the business fundamentals and ongoing business development of the Project Company. Having considered the above principal factors, in particular,

- (i) the risk factor associated with the Project Company, in particular, the uncertainty in the business plan of the Project Company that any deviation of the actual ongoing financial performance of the Project Company from its plan with will adversely impact on the financial performance and position of the Group; and
- (ii) the financial effects of the Acquisition on the Group, such as the negative impacts on the profitability, the net asset value, working capital and gearing position of the Group,

we consider that the risk and demerits associated with the Acquisition could be in a position to out-weigh the potential benefits to be brought about by the Acquisition. However taking into account of wider perspective that:

- (i) the Project Company was profitable during the three years ended 31 December and the six months ended 30 June 2012;
- (ii) the consideration for the Acquisition is considered fair and reasonable having regard to the valuation of the Project as at 30 June 2012 of RMB750,000,000;
- (iii) the terms of the Promissory Note and the Convertibles Notes are within range of relevant comparables;
- (iv) as the consideration of the Acquisition will be approximately 76.7% satisfied by the issue of Convertible Notes, and that all Convertible Notes will be mandatorily converted by the Company on the Maturity Date unless previously redeemed, purchased and cancelled or converted. By way of such conversion into Shares, the interests of the Vendor can be more aligned with those of the Independent Shareholders;

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- (v) business growth in sales of niches pursuant to the announcement of the Company dated 9 November 2012, the customer, a government body in the PRC who accepted the delivery of possession of 13,000 columbarium niches by the end of the year 2012 (as compared to 11,000 columbarium niches sold in year 2011); and
- (vi) the Directors confirm the cemetery operated by Project Company is the only cultural memorial park in Hangzhou with green zone and other accessories,

we consider, from an aggressive approach of putting more weight on the growth potential of the Project Company as supported by the recent confirmation of delivery subject to the ability of the Project Company to sustain with profitable results in the future, that the terms of the Agreement are, on balance, fair and reasonable so far as the Independent Shareholders as a whole. Accordingly, we consider that the Acquisition, though is not in the ordinary and usual course of business but is related to the business of the Group, is on normal commercial terms and in the interest of the Company and its shareholders as a whole and we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM for approving the Agreement.

Yours faithfully,
For and on behalf of
Octal Capital Limited
Alan Fung
Managing Director

THREE YEAR FINANCIAL INFORMATION

Financial information on the Group (including Anxian Yuan which was acquired on 19 November 2010) for each of the three years ended 31 March 2012, 2011 and 2010 were disclosed in the annual reports of the Company for the financial year ended 31 March 2012, 2011 and 2010 respectively, which are published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.china-boon.com).

APPENDIX II ADDITIONAL INFORMATION OF THE ENLARGED GROUP

1. WORKING CAPITAL OF THE ENLARGED GROUP

As at the Latest Practicable Date, the Directors, after due and careful consideration, are of the opinion that, in the absence of unforeseen circumstances and based on the present internal resources of the Enlarged Group, the Enlarged Group will have sufficient working capital for the next 12 months from the date of the circular.

2. INDEBTEDNESS OF THE ENLARGED GROUP

As at the close of business on 30 September 2012, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding secured/guaranteed bank borrowings of RMB78,000,000 (equivalent to approximately HK\$95,375,000), other unsecured borrowings from a non-controlling interest equity holder of a subsidiary of RMB20,000,000 (equivalent to approximately HK\$24,455,000) and loans from Directors of HK\$7,000,000.

As at the close of business on 30 September 2012, except for the pledged bank deposits of RMB30,000,000 (equivalent to approximately HK\$36,683,000), the Enlarged Group did not have any material guarantees.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-Enlarged Group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not have outstanding as at the close of business on 30 September 2012 any loans capital issued and outstanding or agreed to be issued, bank overdrafts or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, finance lease or hire purchases commitments, guarantees or other material contingent liabilities.

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management's discussion and analysis extracted from the annual reports of the Group for the financial year ended 31 March 2010, 2011 and 2012 (modified as appropriate) respectively.

(a) For the year ended 31 March 2010

Market outlook

The financial tsunami in 2008 brought to a severe downturn in the world wide economy. During the year ended 31 March 2010, business activities were slowed down and commodity prices were highly volatile. The margin for electronic products was thin and the scrap metal business became extremely risky and difficult to manage.

Over the past decade, the end of year population of the PRC increased from approximately 1.26 billion in 1999 to approximately 1.32 billion in 2007, representing an increase of approximately 5.04%. According to the China Statistic Yearbook (中國統計年鑒), the population over the age of 65 in the PRC were approximately 7.63% and 9.36% of the total population of the PRC for 1999 and 2007 respectively, representing an increase of approximately 28.75%. The mortality rate of the PRC for 1999 and 2007 were 0.65% and 0.69%, representing an increase of 12.69%. The statistic shows that the PRC is facing aging problem and there is an increasing need and demand for death care services. Ample growth in the funeral services business is expected.

Financial results

For the year ended 31 March 2010, the Group recorded turnover of approximately HK\$27.3 million (2009: approximately HK\$363.0 million) and net loss of approximately HK\$98.1 million (2009: approximately HK\$45.5 million). The net loss for the year ended 31 March 2010 was mainly due to reduction in business operations as mentioned in the section “Business Review” below coupled with share options granted of approximately HK\$21.6 million and impairment losses made against receivables of approximately HK\$35.5 million during the year ended 31 March 2010.

Business review

During the year ended 31 March 2010, the Group continued the trading of consumer electronic appliances and scrap metal and newly engaged business of trading in leather. The turnover of which amounted to approximately HK\$9.0 million (2009: approximately HK\$154.3 million), HK\$6.4 million (2009: approximately HK\$208.7 million) and HK\$11.9 million (2009: Nil) respectively. The total annual turnover fell approximately HK\$335.7 million or 92.5% to approximately HK\$27.3 million mainly attributable to the continuous weak export of consumer electronic appliances and scrap metal arose from the financial tsunami in 2008.

Business development

The Company announced in June 2009 that it will diversify its business into cemetery business. On 13 October 2009, a wholly-owned subsidiary of the Company entered into an agreement with an independent third party to conditionally acquire a company which will hold 55% equity interest in a Sino-foreign joint venture enterprise developing and managing cemetery in Shanghai, the PRC at a total consideration of HK\$2 billion to be paid partly by cash and partly by the Company’s issue of promissory note, ordinary shares and convertible notes.

On 27 February 2010, 中寧企業管理服務(上海)有限公司 (in English, for identification purpose only Sino Peace Enterprise Management & Services (Shanghai) Limited), a wholly-owned subsidiary of the Company entered into a memorandum of understanding with 中國中福實業有限公司 (in English, for identification purpose only China Zhongfu Enterprise Corporation Limited) (“Zhongfu”), a company established under the laws of the PRC and an independent third party, in relation to the parties’ proposed cooperation to develop funeral services in the PRC. According to the information provided by Zhongfu, Zhongfu is a member of the Fu Shou Yuan Group which owns the well-known brand name “Fu Shou Yuan” in the funeral services industry in the PRC. The head office of the Fu Shou Yuan Group is located in Shanghai and currently owns 5 cemeteries and 3 funeral services in the PRC. Pursuant to the memorandum of understanding, the Group and Zhongfu will explore the opportunity to develop and expand the management services and sales network under the brand name “Fu Shou Yuan”. The Group will provide the funding for the said development and expansion. The Group and Zhongfu will further discuss and negotiate the details of the proposed cooperation. There is no significant progress on the proposed cooperation as at the date of the annual report for the year ended 31 March 2010.

Looking forward

The Group intends to expand its existing business to developing and managing cemetery in the PRC, which, the Directors believed has ample growth opportunities due to the growing trend of aged population. Funeral services are a very important component in Chinese social and religious systems. It has been a long tradition in the PRC to hold public decorum and show respect to the deceased. In recent years, the PRC has experienced quick economic development, with concomitant increase in national income. Demand for high quality services has emerged and extended to the funeral services industry. The Directors considered that the above-mentioned proposed acquisition represents an opportunity for the Group to enter into the funeral services industry, and believed that the Group could broaden its source of income by diversifying into such industry.

Liquidity and financial resources

During the year ended 31 March 2010, the net cash inflow was approximately HK\$154.4 million (2009: net cash outflow of approximately HK\$101.5 million). The net cash inflow was mainly arising from placing of 558 million Shares with net proceeds of approximately HK\$260.4 million. As at 31 March 2010, the cash and cash equivalents of the Group were approximately HK\$155.6 million (2009: approximately HK\$1.1 million). The Group has no bank borrowings as at 31 March 2010 (2009: approximately HK\$0.2 million).

Gearing ratio

The Group's financial position as at 31 March 2010, in terms of liquidity and solvency, was sound and healthy. The liquidity ratio (current assets/current liabilities) and gearing ratio (total liabilities/total assets) at the end of the year ended 31 March 2010 were 48.0 (2009: 5.3) and zero (2009: 0.2) respectively.

Charges on assets

As at 31 March 2010, there were no charges on the Group's assets.

Litigation

No outstanding litigation as at 31 March 2010 was noted.

Contingent liabilities

No significant contingent liabilities of the Group as at 31 March 2010 were noted.

Exposure to fluctuations in exchange rates and related hedges

During the year ended 31 March 2010, the Group's purchases and sales were mainly denominated in US\$ and the fund raising activities were denominated in HK\$. Since HK\$ are pegged to US\$, significant exposure is not expected in US\$ transactions and balances. The PRC subsidiary of the Group was operated in PRC. All transactions, assets and liabilities of the PRC subsidiary were denominated in RMB or US\$ and were translated into HK\$ at year end date as a foreign operation. No foreign currency hedge was made during the year ended 31 March 2010.

Employee and remuneration policies

As at 31 March 2010, the Group had 19 employees (including Directors) in Hong Kong (2009: 15 employees) and 8 employees in PRC (2009: Nil). The Group regularly reviews remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary and mandatory provident fund, employees are entitled to other benefits such as share option scheme, of which the Directors may, at their discretion, grant options to employees of the Group. The remuneration policies of the Group's employees are subject to review regularly.

The Group has a share option scheme available for certain full-time employees of the Company or any of its subsidiaries, including any executive directors of the Company or any of its subsidiaries.

Total staff costs (including Directors) for the year ended 31 March 2010 amounted to approximately HK\$20.0 million (2009: approximately HK\$8.5 million), of which contribution to mandatory provident fund and share options granted were approximately HK\$151,000 (2009: approximately HK\$141,000) and approximately HK\$9.5 million (2009: approximately HK\$0.9 million) respectively.

Acquisition and disposal of subsidiaries and associated companies

On 13 October 2009, the Group entered into an agreement with the vendor, Mr. Fu Yuan Ji ("Mr. Fu") to acquire the entire equity interests in Topace Investments Limited (together with its subsidiaries collectively referred to as the "Topace Group") for a consideration of HK\$2,000,000,000 (subject to adjustments). The Topace Group is principally engaged in funeral service development in Shanghai, the PRC. As at 31 March 2010, a refundable deposit of HK\$80,000,000 was paid to the vendor by the Company's subsidiary, Sino Grandeur Limited. Details of the acquisition of the Topace Group are set out in the Company's circular dated on 24 December 2009.

As at 31 March 2010, acquisition of the Topace Group has not yet been completed. Thus, the balance is treated as non-current deposit.

(b) For the year ended 31 March 2011

Overview

Operation Overview

During the year ended 31 March 2011, the Group operated four business segments: Cemetery Business, Leather Trading, Electronic Trading and Metal Trading.

Cemetery Business

The Group acquired Anxian Yuan on 19 November 2010 and commenced its Cemetery Business in the PRC since then.

According to the China Statistic Yearbook, the end of year population of the PRC increased from approximately 1.258 billion in 1999 to approximately 1.335 billion in 2009, representing an increase of approximately 6.12%. The population at or over the age of 65 in the PRC were 7.63% and 8.47% of the total population of the PRC for 1999 and 2009 respectively, representing an increase of approximately 11.01%. The mortality rate of the PRC for 1999 and 2009 were 0.65% and 0.71% respectively, representing an increase of 9.23%. The statistics show that the PRC is facing aging problem and a huge demand on death care services is expected.

Anxian Yuan is situated in Hangzhou, Zhejiang Province, the PRC. The table below shows the end of year population, population over age 65 and the mortality rate of Zhejiang Province for 1999 and 2009:

	1999	2009	Increase/ (Decrease) (%)
Population ('000)			
– End of year	44,750	51,800	15.75
– Over 65	4,267	5,736	34.43
Mortality rate (%)	0.635	0.559	(11.97)

From the above table, both the end of year population and population for age over 65 increased in the past decade. Although there is a decrease in the mortality rate, the increase in population compensated the decrease in mortality rate. As a result, similar to the national situation, a huge demand on death care services in Zhejiang Province is also expected.

APPENDIX II ADDITIONAL INFORMATION OF THE ENLARGED GROUP

Leather Trading

The Group made a few transactions on Leather Trading during the year ended 31 March 2011 with the margin of only 1.8%. Since the acquisition of Anxian Yuan, much resources was drawn to the Cemetery Business. With the thin margin, the activity in Leather Trading is expected to reduce in the coming financial years.

Electronic Trading and Metal Trading

As highlighted in our annual report for the year ended 31 March 2010 which was also applicable to the year ended 31 March 2011, the margin in electronic products was thin and the scrap metal trading became extremely risky and difficult to manage. As a result, there were no trading activities and hence, the revenue, in these two segments during the year ended 31 March 2011.

Financial Overview

The result of the Group before minority interests was turning from loss of approximately HK\$98,074,000 in last financial year to profit of approximately HK\$4,356,000 in the year ended 31 March 2011. Although the Group still maintained a loss after minority interests, it was substantially reduced from approximately HK\$98,074,000 in last financial year to approximately HK\$20,335,000 in the year ended 31 March 2011.

	Financial year	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	135,467	27,265
Gross profit/(loss)	74,685	(7,839)
Profit/(Loss) for the year	4,356	(98,074)
Loss attributable to the Group	(20,335)	(98,074)

The improvement in the results of the Group was mainly attributable to:

- 1) The consolidation of the result of Anxian Yuan after the acquisition on 19 November 2010 which is discussed under the segment analysis below.
- 2) The gain on acquisition of Anxian Yuan which was mainly attributable to the difference between the fair value of consideration as at the date of acquisition of Anxian Yuan and the consideration as stipulated in the sale and purchase agreement on the acquisition of Anxian Yuan.
- 3) There was no impairment on receivables as that in last financial year.

Segment

Segment overview

The Group operated 4 business segments (2010: 3) during the year ended 31 March 2011. The table below shows the operating results of the segments.

	Financial year 2011					Financial year 2010			
	Cemetery	Leather	Electronic	Metal	Group	Leather	Electronic	Metal	Group
	Business	Trading	Trading	Trading		Trading	Trading	Trading	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	127,642	7,825	–	–	135,467	11,916	8,961	6,388	27,265
Gross profit/(loss)	74,547	138	–	–	74,685	221	(2,348)	(5,712)	(7,839)
GP ratio (%)	58.4	1.8	–	–	55.1	1.9	N/A	N/A	N/A
Segment result	41,992	138	–	–	42,130	221	(7,933)	(38,960)	(46,672)

Cemetery Business

The acquisition of Anxian Yuan was completed on 19 November 2010 and Anxian Yuan became a subsidiary of the Group and its results were consolidated in the financial statements of the Group since then.

Anxian Yuan is a cemetery operator in Hangzhou, Zhejiang Province, the PRC. It was established in 1999 and operation commenced between 1999 and 2000. The revenue represents the sales of tombs and niches to middle and high-end customers in Hangzhou City. The total size of the cemetery was approximately 974 Chinese Mu (equivalent to approximately 674,700 square meters) and less than 200 Chinese Mu (equivalent to approximately 133,200 square meters) has been developed.

The management team of Anxian Yuan before the acquisition has been retained for the continuing operation of the cemetery. Experienced senior management in cemetery operation of the Group have been appointed to the management team in order to provide enhancement to the cemetery operation including the design of the cemetery, operation workflow, computerisation etc.

Between 19 November 2010 (date of acquisition of Anxian Yuan) and 31 March 2011, Anxian Yuan sold 320 tombs and 26,000 niches with average selling price of approximately RMB44,800 and RMB3,610 respectively.

The future

Looking into the future, Cemetery Business will be the spotlight of the Group and much resources will be contributed to this segment. At the moment, the Group will focus on the enhancement of the operation of Anxian Yuan. The Group will also keep on looking for merger and acquisition opportunities in Cemetery Business in other major cities throughout the PRC in order to increase our market shares in the segment.

In mid to long range term, the Group is targeted to be the leader in the Cemetery Business and build our national wide brand name.

Liquidity and financial resources

During the year ended 31 March 2011, the net cash outflow was approximately HK\$67.7 million (2010: net cash inflow of approximately HK\$154.4 million). The change from net cash inflow to net cash outflow was mainly because there was no fund raising activities during the Year (2010: net proceeds of approximately HK\$260.5 million from placing of shares). As at 31 March 2011, the cash and cash equivalents of the Group were approximately HK\$88.7 million (2010: approximately HK\$155.6 million). The Group has bank borrowings of approximately HK\$48.0 million as at 31 March 2011 (2010: HK\$ nil).

Subsequent to 31 March 2011, the Company issued Shares by way of top-up placing with net proceeds of approximately HK\$60.8 million. This has strengthened the Group's cash position.

Gearing ratio

The gearing ratio (total liabilities/total assets) at the end of the Year was 0.33 (2010: zero).

Charges on assets

As at 31 March 2011, there were no charges on the Group's assets.

Litigation

No outstanding litigation as at 31 March 2011 was noted.

Contingent liabilities

At 31 March 2011, neither the Group nor the Company had any significant contingent liabilities.

Exposure to fluctuations in exchange rates and related hedges

During the year ended 31 March 2011, the Group's purchases and sales were mainly denominated in US\$ and RMB and the fund raising activities were denominated in HK\$. Since HK\$ are pegged to US\$, significant exposure is not expected in US\$ transactions and balances. The PRC subsidiaries of the Group were operated in PRC. All transactions, assets and liabilities of the PRC subsidiaries were denominated in RMB and were translated into HK\$ at year end date as a foreign operation. No foreign currency hedge was made during the year ended 31 March 2011.

Employee and remuneration policies

As at 31 March 2011, the Group had 20 employees (including Directors) in Hong Kong (2010: 19 employees) and 16 employees in PRC (2010: 8 employees). The Group regularly reviews remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary and mandatory provident fund, employees are entitled to other benefits such as share option scheme, of which the Directors may, at their discretion, grant options to employees of the Group. The remuneration policies of the Group's employees are subject to review regularly.

The Group has a share option scheme available for directors and employees of the Company or any of its subsidiaries.

Total staff costs (including Directors) for the year ended 31 March 2011 amounted to approximately HK\$22.1 million (2010: approximately HK\$20.0 million), of which contribution to mandatory provident fund and share options granted were approximately HK\$311,000 (2010: approximately HK\$151,000) and approximately HK\$7.4 million (2010: approximately HK\$9.5 million) respectively.

Acquisition and disposal of subsidiaries and associated companies

On 19 November 2010, the Company acquired 41.2% equity interest of Anxian Yuan through a wholly-owned subsidiary.

On 30 November 2010, a wholly-owned subsidiary of the Company entered into an amended and restated agreement with an independent third party on the acquisition of a joint venture company in PRC.

(c) For the year ended 31 March 2012

Business review

During the financial year ended 31 March 2012, the Group continued its focus on the cemetery business by further developing its existing cemetery and by acquiring new cemetery in the PRC.

In order to focus on cemetery business which the Directors believe has ample growth opportunities, the Group discontinued its business in electronic trading, metal trading and leather trading. During the financial year ended 31 March 2012, the Group's turnover was entirely from cemetery business.

During the financial year ended 31 March 2012, the Project Company continued to make contribution to the Group's bottom line. The Group acquired 41.2% equity interests in the Project Company in November 2010 and further increased it to 51% in the financial year ended 31 March 2012 through capital injection of RMB80 million. Details of this transaction are set out in the paragraph headed "Previous Acquisition" in section headed "Letter from the Board" of this circular.

The Group actively search and acquire cemeteries with sizable undeveloped land banks across densely populated geographies in PRC. On 30 September 2011, the Company entered into an agreement with independent third parties to acquire a limited liability company, which is principally engaged in cemetery development and operation in Chongqing, the PRC. Soon after the execution of the agreement, the Company commenced the due diligence investigation on the assets, liabilities, businesses, prospects and other affairs of the limited liability company. The results of the investigation are not satisfactory to the Company. After the Board reviewed the progress and the due diligence investigation and evaluated the benefits expected to be brought by the acquisition, the Board decided not to extend the long stop date of the Agreement and the Agreement lapsed accordingly on 1 July 2012. For further information regarding this acquisition, please refer to the Company's announcements dated 13 October 2011, 31 January 2012 and 29 June 2012.

Business outlook

According to the National Bureau of Statistics of China, the population at or over the age of 65 in the PRC for 2010 was 119 million or 8.87% (2000: 6.96%) of total population. As China's population continues to age and per capita income to increase, there is an upward trend in the demand for cemetery services.

PRC cemetery service industry is an industry with significant barriers to entry because of limited supply of new cemetery land coupled with regulatory complexities and zoning restrictions. The Group has competitive edge over its competitors as a capable team with considerable knowledge and experience in cemetery services has already been assembled.

The Group has succeeded in entering into the PRC cemetery service industry by acquiring the Project Company in 2010 and will further strengthen its position by acquisitions.

It is the objective of the Group to become a market leader and to build up national brand name in the industry, and the strategy of the Group to provide one-stop service from cemetery development to funeral and ancestral worship services.

Financial review

For the financial year ended 31 March 2012, the Group recorded net loss of approximately HK\$120.9 million (2011: net profit of approximately HK\$4.4 million) on turnover of approximately HK\$64.7 million (2011 (re-presented): approximately HK\$127.6 million).

The deterioration in the results of the Group was mainly attributable to:

- (a) a bad debt provision of HK\$80 million made against a debtor (2011: nil);
- (b) lower contribution from the Project Company, by approximately HK\$31.2 million, due to project delay; and
- (c) no gain on bargain purchase of subsidiary (2011: a gain of approximately HK\$35.8 million).

During the financial year ended 31 March 2012, the Project Company sold 1,047 tombs with average selling price of approximately RMB50,300. For the period from 19 November 2010, the date the Project Company was acquired by the Group, to 31 March 2011, the Project Company sold 320 tombs at approximately RMB44,800 each and 26,000 columbarium niches at RMB3,610 each, in average. As there were no sales of columbarium niches during the financial year ended 31 March 2012, the contribution from the Project Company dropped approximately HK\$31.2 million when compared with last financial year. It is expected that a number of columbarium niches will be sold upon its completion in the foreseeable future.

Net assets of the Group as at 31 March 2012 was approximately HK\$505 million (2011: approximately HK\$537 million). During the financial year ended 31 March 2012, the Group raised approximately HK\$109.7 million by placing and repurchased its Shares for approximately HK\$3.3 million.

Liquidity and financial resources

During the financial year ended 31 March 2012, the net cash outflow was approximately HK\$37.0 million (2011: approximately HK\$67.7 million). As at 31 March 2012, the cash and cash equivalents of the Group were approximately HK\$52.1 million (2011: approximately HK\$88.7 million). The Group has bank borrowings of approximately HK\$77.7 million as at 31 March 2012 (2011: approximately HK\$48.0 million).

Gearing ratio

The gearing ratio (total liabilities/total assets) at the end of the financial year ended 31 March 2012 was 0.34 (2011: 0.33).

Charges on assets

As at 31 March 2012, the Group's bank borrowing of approximately HK\$18.5 million was secured by pledging of the Group's bank deposits of approximately HK\$18.5 million.

Litigation

No outstanding litigation of the Group as at 31 March 2012 was noted.

Contingent liabilities

No significant contingent liabilities of the Group were noted.

Exposure to fluctuations in exchange rates and related hedges

During the financial year ended 31 March 2012, the Group's business were mainly denominated in RMB and the fund raising activities were denominated in HK\$. The PRC subsidiaries of the Group were operated in PRC. All transactions, assets and liabilities of the PRC subsidiaries were denominated in RMB and were translated into HK\$ at year end date as foreign operations. No foreign currency hedge was made during the financial year ended 31 March 2012.

Employee and remuneration policies

As at 31 March 2012, the Group had 14 employees (including Directors) in Hong Kong (2011: 20 employees) and 5 employees in PRC (2011: 16 employees). The Group regularly reviews remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary and mandatory provident fund, employees are entitled to other benefits such as share option scheme, of which the Directors may, at their discretion, grant options to employees of the Group. The remuneration policies of the Group's employees are subject to review regularly.

The Group has a share option scheme available for directors and employees of the Company or any of its subsidiaries.

Total staff costs (including Directors) for the financial year ended 31 March 2012 amounted to approximately HK\$16.2 million (2011: approximately HK\$22.1 million), of which contribution to mandatory provident fund and share options granted were approximately HK\$408,000 (2011: approximately HK\$311,000) and HK\$3.7 million (2011: approximately HK\$7.4 million) respectively.

Acquisition and disposal of subsidiaries and associated companies

The Group acquired 41.2% equity interest of the Project Company on 19 November 2010 and increased such interest to 51% in May 2011 by injecting a sum of RMB80 million in the Project Company.

On 30 November 2010, a wholly-owned subsidiary of the Company entered into an amended and restated agreement with an independent third party on the acquisition of a joint venture enterprise in Shanghai, the PRC. Since all the condition precedents specified in the amended and restated agreement were not satisfied or waived by 30 November 2011, the amended and restated agreement was lapsed on 1 December 2011. For further information regarding this acquisition, please refer to the Company's announcements dated 13 December 2010, 14 January 2011 and 31 May 2011 and the circular dated 15 February 2011.

On 30 September 2011, the Company entered into a conditional agreement with independent third parties in relation to an acquisition of a limited liability company in the PRC, which is principally engaged in the business of developing and operating a cemetery in Chongqing, the PRC. Soon after the execution of the agreement, the Company commenced the due diligence investigation on the assets, liabilities, businesses, prospects and other affairs of the limited liability company. The results of the investigation are not satisfactory to the Company. After the Board reviewed the progress and the due diligence investigation and evaluated the benefits expected to be brought by the acquisition, the Board decided not to extend the long stop date of the Agreement and the Agreement lapsed accordingly on 1 July 2012. For further information regarding this acquisition, please refer to the Company's announcements dated 13 October 2011, 31 January 2012 and 29 June 2012.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP AND THE PROJECT COMPANY

As at the date of the Agreement, the Target Group consists of the Target Company, Hirise and the Project Company.

(A) Target Company and Hirise

The Target Company and Hirise were incorporated on 20 April 2012 and 27 May 2011 respectively and commenced business on 1 June 2012 when Hirise entered into an agreement with Mr. Shi, pursuant to which Hirise agreed to acquire from Mr. Shi 47.38% equity interest of the project Company at a consideration of RMB60,000,000. The acquisition, represents a corporate restructuring, was completed on 13 July 2012.

APPENDIX II ADDITIONAL INFORMATION OF THE ENLARGED GROUP

For the period ended 31 March 2012 and 30 June 2012

Since Hirise acquired 47.38% equity interest of the Project Company on 13 July 2012, as at 31 March 2012 and 30 June 2012, only the Target Company and Hirise were included in the Target Group.

Liquidity and financial resources

Except the amounts due from/to shareholder, which were also the major financial resources, the Target Group did not have other loans or borrowings as at 31 March 2012 and 30 June 2012.

Contingent liabilities

The Target Group had no contingent liabilities or litigation as at 31 March 2012 and 30 June 2012.

Exposure to fluctuations in exchange rates

No exposure to fluctuations in exchange rates during the period ended 31 March 2012 and 30 June 2012 were noted.

Gearing ratio

The gearing ratio (total liabilities/total assets) for the Target Group was 100.3% and 202.8% as at 31 March 2012 and 30 June 2012 respectively.

Charges on assets

As at 31 March 2012 and 30 June 2012, there were no charges on the assets of the Target Group.

Acquisition and disposal of subsidiaries and associated companies

The Target Company, through Hirise, acquired 47.38% equity interest of the Project Company on 13 July 2012.

Employee and remuneration

The Target Group did not employ any staff during the period ended 31 March 2012 and 30 June 2012 and there was no employee remuneration payment.

Looking forward

The Target Company, through Hirise, commenced cemetery business after 47.38% equity interest in the Project Company was acquired on 13 July 2012.

(B) Project Company

The Project Company was established in the PRC on 26 April 1999 and commenced its cemetery operation in Hangzhou City in year 2000. It involves in the layout design and construction of cemetery and the sales of burial sites and columbarium niches. Its revenue includes the sales of burial sites and columbarium niches as well as related management fee income. The sale of burial sites to the customers has been conducted through the Project Company's sales offices while the columbarium niches have been sold to a PRC government body in Hangzhou City. The burial sites are categorised into four major types – standard burial sites, high-end burial sites, artistic burial sites and family-based burial sites.

The Project Land has a total site area of approximately 647,715.1 square meters with no expiry period as specified on the land use right certificate and is designated for use as cemetery. As at 30 June 2012, approximately 142,503 square meters had been developed as a cemetery and approximately 12,400 burial sites and 26,000 columbarium niches had been sold since the commencement of operation in year 2000. As at 30 June 2012, the Project Company had approximately 1,770 burial sites and 37,000 columbarium niches in the Project Land available for sale.

The Project Company became an indirect subsidiary of the Company in November 2010 and it is expected that there are ample growth opportunities in the cemetery market due to growing trend of aged population. The Project Company will continue to expand its business by constructing burial sites on the Project Land for sale to its customers.

(a) For the year ended 31 December 2011***Financial Review***

During the year ended 31 December 2011, the Project Company was principally engaged in the business of developing and operating cemetery in Hangzhou City which was the only business segment.

The sales for the year ended 31 December 2011, slightly below last financial year, was approximately RMB92,098,000 (2010: approximately RMB98,613,000), of which sales of burial sites, sales of columbarium niches and management fee income accounted for approximately RMB51,936,000 (2010: approximately RMB44,463,000), RMB39,710,000 (2010: approximately RMB54,150,000) and RMB452,000 (2010: Nil) respectively. The gross margin rate for the year ended 31 December 2011 was 70.3%, slightly higher than that of last financial year.

The net profit for the year ended 31 December 2011 was approximately RMB14,521,000 (2010: approximately RMB24,447,000). The decrease in net profit was mainly due to lower sales of columbarium niches coupled with higher expenses.

Liquidity and Financial Resources

As at 31 December 2011, the Project Company's cash and bank balances and interest-bearing bank borrowings were approximately RMB9,391,000 (2010: approximately RMB15,300,000) and RMB35,000,000 (2010: RMB15,000,000) respectively.

Contingent Liabilities

The Project Company had no contingent liabilities as at 31 December 2011.

Exposure to Fluctuations in Exchange Rates

During the year ended 31 December 2011, the Project Company operated in the PRC and the business was transacted mainly in RMB. Hence, there was no significant exposure to the fluctuations in exchange rate.

Gearing Ratio

The gearing ratio (total liabilities/total assets) as at 31 December 2011 was 64.2% (2010: 81.2%).

Charges on assets

As at 31 December 2011, there were no charges on the assets of the Project Company.

Acquisition and disposal of subsidiaries and associated companies

There was no acquisition or disposal of subsidiaries and associated companies for the year ended 31 December 2011.

(b) For the year ended 31 December 2010***Financial Review***

During the year ended 31 December 2010, the Project Company was principally engaged in the business of developing and operating cemetery in Hangzhou City which was the only business segment.

The sales for the year ended 31 December 2010, much higher than that of the immediate preceding financial year, was approximately RMB98,613,000 (2009: approximately RMB41,840,000), of which sales of burial sites and columbarium niches accounted for approximately RMB44,463,000 (2009: approximately RMB41,840,000) and RMB54,150,000 (2009: Nil) respectively. The gross margin rate for the year ended 31 December 2010 was 68.1% (2009: 72%).

The net profit for the year ended 31 December 2010 was approximately RMB24,447,000 (2009: approximately RMB8,955,000), representing an increase of approximately RMB15,492,000 from that of the last financial year. The increase in net profit was mainly due to the sales of columbarium niches in the year ended 31 December 2010 (2009: Nil).

Liquidity and Financial Resources

As at 31 December 2010, the Project Company's cash and bank balances and interest-bearing bank borrowings were approximately RMB15,300,000 (2009: approximately RMB15,622,000) and RMB15,000,000 (2009: RMB24,300,000) respectively.

Contingent Liabilities

The Project Company had no contingent liabilities as at 31 December 2010.

Exposure to Fluctuations in Exchange Rates

During the year ended 31 December 2010, the Project Company operated in the PRC and the business was transacted mainly in RMB. Hence, there was no significant exposure to the fluctuations in exchange rate.

Gearing Ratio

The gearing ratio (total liabilities/total assets) as at 31 December 2010 was 81.2% (2009: 87.7%).

Charges on assets

As at 31 December 2010, there were no charges on the assets of the Project Company.

Acquisition and disposal of subsidiaries and associated companies

There was no material acquisition or disposal of subsidiaries and associated companies for the year ended 31 December 2010.

(c) For the year ended 31 December 2009***Financial Review***

During the year ended 31 December 2009, the Project Company was principally engaged in the business of developing and operating cemetery in Hangzhou City which was the only business segment.

The sales for the year ended 31 December 2009 was approximately RMB41,840,000, all of which was derived from the sales of burial sites. The gross margin rate for the year ended 31 December 2009 was 72.0% and the net profit approximately RMB8,955,000.

Liquidity and Financial Resources

As at 31 December 2009, the Project Company's cash and bank balances and interest-bearing bank borrowings were approximately RMB15,622,000 and RMB24,300,000 respectively.

Contingent Liabilities

The Project Company had no contingent liabilities as at 31 December 2009.

Exposure to Fluctuations in Exchange Rates

During the year ended 31 December 2009, the Project Company operated in the PRC and the business was transacted mainly in RMB. Hence, there was no significant exposure to the fluctuations in exchange rate.

Gearing Ratio

The gearing ratio (total liabilities/total assets) as at 31 December 2009 was 87.7%.

Charges on asset

As at 31 December 2009, there were no charges on the assets of the Project Company.

Acquisition and disposal of subsidiaries and associated companies

There was no acquisition or disposal of subsidiaries and associated companies for the year ended 31 December 2009.



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28 November 2012

The Directors
China Boon Holdings Limited
Room 2118, Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

Dear Sirs,

We set out below our report on the financial information of Jia Yuan Trading Limited (the “Target Company”) and its subsidiary (hereinafter collectively referred to as the “Target Group”) including the consolidated statements of financial position of the Target Group as at 31 March 2012 and 30 June 2012 and the statement of financial position of the Target Company as at 30 June 2012, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the period from 27 May 2011 (the earliest date of incorporation of the Target Group) to 31 March 2012 and for the three months ended 30 June 2012 (the “Relevant Periods”) of the Target Group and notes thereto (hereinafter collectively referred to as the “Financial Information”), together with the unaudited consolidated financial information of the Target Group including the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the period from 27 May 2011 (the earliest date of incorporation of the Target Group) to 30 June 2011 (the “30 June 2011 Corresponding Information”) of the Target Group, prepared on the basis of presentation set forth in note 1 of Section II below, for inclusion in the circular issued by China Boon Holdings Limited (the “Company”) dated 28 November 2012 (the “Circular”) in connection with the proposed acquisition of the entire issued share capital of the Target Company by a wholly-owned subsidiary of the Company (the “Proposed Acquisition”). As at the date of this Circular, the equity interests in 浙江安賢陵園有限公司 Zhejiang Anxian Yuan Company Limited* (the “Project Company”) held indirectly by the Company and the Target Company were 51.00% and 47.38% respectively. Upon completion of the Proposed Acquisition, the effective interest of the Company in the Project Company will be 98.38%.

* The unofficial English translation is for identification purposes only

The Target Company was incorporated in the British Virgin Islands (the “BVI”) on 20 April 2012 with limited liability and an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. During the Relevant Periods, 1 share was issued at US\$1. The Target Company’s registered office is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI and it is principally engaged in investment holding. The Target Group has not commenced other business except investment holding since the respective dates of incorporation of the Target Company and its subsidiary.

The Target Company’s subsidiary, Hirise Corporation Limited (“Hirise”), was incorporated in Hong Kong on 27 May 2011. Details of Hirise at the date of this report are set out in note 1 of Section II below. All companies comprising the Target Group have adopted 31 March as their financial year end date. As at the date of this report, no audited financial statements of the Target Company have been prepared since its date of incorporation as there are no statutory audit requirements in the country of its jurisdiction. We have not acted as auditor of the Target Company for the Relevant Periods referred to in this report.

For the purpose of this report, the sole director of the Target Company has prepared the consolidated financial statements of the Target Group for the Relevant Periods (the “Underlying Financial Statements”) in accordance with the basis of presentation set out in note 1 of Section II below and the accounting policies set out in note 3 of Section II below which comply with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Target Group.

The Financial Information has been prepared by the sole director of the Target Company based on the Underlying Financial Statements on the basis set out in note 1 of Section II below. No adjustments on the Underlying Financial Statements for the Relevant Periods are considered necessary for the purpose of preparing the Financial Information.

The sole director of the Target Company is responsible for the contents of the Circular including the preparation and the true and fair presentation of the Financial Information in accordance with the basis of presentation set out in note 1 of Section II below, the accounting policies set out in note 3 of Section II below which comply with HKFRSs, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), and for such internal control as the sole director of the Target Company determines is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures and to report our opinion to you.

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Financial Information of the Target Company and carried out appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the Financial Information, for the purpose of this report, prepared on the basis set out in note 1 of Section II below and in accordance with the accounting policies in note 3 of Section II below, gives a true and fair view of the state of affairs of the Target Group as at 31 March 2012 and 30 June 2012 and of the Target Company as at 30 June 2012 and of the consolidated loss and consolidated cash flows of the Target Group for the Relevant Periods.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have reviewed the 30 June 2011 Corresponding Information, which is prepared in accordance with the basis of presentation set out in note 1 of Section II below and the accounting policies set out in note 3 of Section II below which comply with HKFRSs in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. The sole director of the Target Company is responsible for the preparation and presentation of the 30 June 2011 Corresponding Information in accordance with the basis of presentation set out in note 1 of Section II below, the accounting policies set out in note 3 of Section II below which comply with HKFRSs, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. Our responsibility is to express a conclusion on the 30 June 2011 Corresponding Information based on our review. A review principally consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures to the 30 June 2011 Corresponding Information. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2011 Corresponding Information.

REVIEW CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2011 Corresponding Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		For the period from 27 May 2011 to 31 March 2012	For the period from 1 April 2012 to 30 June 2012	For the period from 27 May 2011 to 30 June 2011
	Notes	HK\$	HK\$	HK\$ (Unaudited)
Revenue	5	–	–	–
Bank interest income		–	23	–
Administrative expenses		(30,800)	(24,250)	–
Loss before income tax	6	(30,800)	(24,227)	–
Income tax expense	7	–	–	–
Loss for the period attributable to the owner of the Target Company		(30,800)	(24,227)	–
Other comprehensive income for the period attributable to the owner of the Target Company		–	–	–
Total comprehensive loss for the period attributable to the owner of the Target Company		(30,800)	(24,227)	–

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 March 2012 <i>HK\$</i>	At 30 June 2012 <i>HK\$</i>
	<i>Notes</i>		
ASSETS			
Current assets			
Prepayments		–	5,500
Cash and bank balances		10,049,401	48,024
		<u>10,049,401</u>	<u>53,524</u>
Current liabilities			
Accruals		6,000	34,350
Amount due to shareholder	10	10,074,200	74,193
		<u>10,080,200</u>	<u>108,543</u>
Net current liabilities/Net liabilities		<u>(30,799)</u>	<u>(55,019)</u>
CAPITAL DEFICIENCIES			
ATTRIBUTABLE TO THE OWNER OF THE TARGET COMPANY			
Share capital	11	1	8
Accumulated losses		<u>(30,800)</u>	<u>(55,027)</u>
Total capital deficiencies		<u>(30,799)</u>	<u>(55,019)</u>

APPENDIX III

ACCOUNTANTS' REPORT OF THE TARGET GROUP

STATEMENT OF FINANCIAL POSITION

		At 30 June 2012
	Notes	HK\$
ASSETS AND LIABILITIES		
Non-current asset		
Investment in subsidiary	8	1
		1
Current asset		
Amount due from shareholder	9	7
		7
Current liabilities		
Accruals		13,400
		13,400
Net current liabilities		(13,393)
Total assets less current liabilities/Net liabilities		(13,392)
CAPITAL DEFICIENCIES		
Share capital	11	8
Accumulated loss		(13,400)
Total capital deficiencies		(13,392)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital deficiencies attributable to the owner of the Target Company		
	Share capital	Accumulated losses	Total
	HK\$	HK\$	HK\$
At 27 May 2011	–	–	–
Issue of share upon incorporation of Hirise (note 11)	1	–	1
Loss for the period	–	(30,800)	(30,800)
Total comprehensive loss for the period	–	(30,800)	(30,800)
At 31 March 2012 and 1 April 2012	1	(30,800)	(30,799)
Issue of shares upon incorporation of the Target Company and elimination against investment in Hirise (note 11)	7	–	7
Loss for the period	–	(24,227)	(24,227)
Total comprehensive loss for the period	–	(24,227)	(24,227)
At 30 June 2012	8	(55,027)	(55,019)
For the period from 27 May 2011 to 30 June 2011 (Unaudited)			
At 27 May 2011	–	–	–
Issue of share upon incorporation of Hirise (note 11)	1	–	1
Loss for the period	–	–	–
Total comprehensive income for the period	–	–	–
At 30 June 2011 (Unaudited)	<u>1</u>	<u>–</u>	<u>1</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the period from 27 May 2011 to 31 March 2012 HK\$	For the period from 1 April 2012 to 30 June 2012 HK\$	For the period from 27 May 2011 to 30 June 2011 HK\$ (Unaudited)
Cash flows from operating activities	(30,800)	(24,227)	–
Loss before income tax			
Adjustments for:			
Bank interest income	–	(23)	–
Operating loss before working capital changes	(30,800)	(24,250)	–
Increase in prepayments	–	(5,500)	–
Increase in accruals	6,000	28,350	–
Cash used in operations	(24,800)	(1,400)	–
Interest received	–	23	–
Net cash used in operating activities	(24,800)	(1,377)	–
Cash flows from financing activities			
Proceed from issuance of share	1	7	1
Advances from/(repayments to) shareholder	10,074,200	(10,000,007)	–
Net cash generated from/(used in) financing activities	10,074,201	(10,000,000)	1
Net increase/(decrease) in cash and cash equivalents	10,049,401	(10,001,377)	1
Cash and cash equivalents at beginning of the period	–	10,049,401	–
Cash and cash equivalents at end of the period	<u>10,049,401</u>	<u>48,024</u>	<u>1</u>

II. NOTES TO THE FINANCIAL INFORMATION AND THE 30 JUNE 2011
CORRESPONDING INFORMATION

1. Corporate Information and Basis of Presentation

The Target Company is a limited liability company incorporated in the BVI on 20 April 2012. Its registered office is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI. The Target Company is principally engaged in investment holding. There were no significant changes in the nature of the Target Group’s principal activities during the Relevant Periods.

At the date of this report, particulars of the subsidiary in which the Target Company has direct interest are set out as follows:

Name	Date of incorporation and place of incorporation	Nominal value of issued ordinary share	Percentage of equity attributable to the Target Company	Principal activities
Hirise Corporation Limited (“Hirise”) (note) 鴻漢有限公司	27 May 2011 Hong Kong	HK\$1	100%	Investment holding

Note:

As at the date of this report, no audited financial statements of Hirise have been prepared since its date of incorporation.

During the Relevant Periods, the Target Group was controlled by Mr. Shi Hua. The change of shareholding in the Target Group (the “Group Restructuring”) during the Relevant Periods is set out as follows:

(a) Incorporation of the Target Company

On 20 April 2012, the Target Company was incorporated in the BVI as an investment holding company with issued and paid one share capital at par value of US\$1. The issued share was beneficially held by Mr. Shi Hua.

(b) Incorporation of Hirise

On 27 May 2011, Hirise was incorporated in Hong Kong as an investment holding company with issued and paid one share capital at par value of HK\$1 and was beneficially held by Mr. Shi Hua.

(c) Transfer of share of Hirise

On 14 May 2012, Mr. Shi Hua disposed of all his equity interest in Hirise at the nominal consideration of HK\$1 to the Target Company. Upon completion of the transfer of share, the Target Company was the sole shareholder of Hirise.

The Target Group is regarded as a continuing entity resulting from the Group Restructuring since the companies which took part in the Group Restructuring were controlled by Mr. Shi Hua before and after the Group Restructuring. There is no change of economic substance resulting from the Group Restructuring which was undertaken solely to form a group structure to facilitate the sale transaction. The Financial Information has therefore been prepared using the principles of merger accounting as if the current group structure had been in existence throughout the Relevant Periods.

Under merger accounting,

- (i) the net assets of the combining entities are consolidated using the existing book values from the controlling parties' perspective;
- (ii) no amount is recognised as consideration for goodwill or gain on bargain purchase at the time of common control consolidation, to the extent of the continuation of the controlling parties' interest;
- (iii) the consolidated statements of comprehensive income include the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under common control, where this is a shorter period, regardless of the date of the common control consolidation; and
- (iv) all significant intra-group balances and transactions within the Target Group are eliminated on consolidation in full.

No statement of financial position of the Target Company as at 31 March 2012 was presented as the Target Company was incorporated on 20 April 2012.

The Financial Information and the 30 June 2011 Corresponding Information are presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the Target Company.

2. Adoption of New or Amended HKFRSs

During the Relevant Periods, the Target Group has adopted all the new and amended HKFRSs issued by the HKICPA which are relevant to the Target Group and effective for the reporting period.

At the date of this report, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Target Group.

The sole director of the Target Company anticipates that all of the pronouncements will be adopted in the Target Group's accounting policy for the first period beginning after the effective date of the pronouncement. The sole director of the Target Company is currently assessing the impact of the new and amended HKFRSs upon initial application. So far, the sole director of the Target Company has preliminarily concluded that the initial application of these HKFRSs will not result in material financial impact on the Financial Information. Information on new and amended HKFRSs that are expected to have an impact on the Target Group's accounting policies is provided below.

HKFRS 9 – Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2015. Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for de-recognition of financial assets and financial liabilities.

3. Summary of Significant Accounting Policies

3.1 Basis of preparation

The Financial Information and the 30 June 2011 Corresponding Information set out in this report have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

The significant accounting policies that have been used in the preparation of the Financial Information and the 30 June 2011 Corresponding Information are summarised below. These policies have been consistently applied throughout the Relevant Periods unless otherwise stated.

The Financial Information and the 30 June 2011 Corresponding Information have been prepared under historical cost convention. The measurement bases are fully described in the accounting policies below.

The Financial Information has been prepared on the going concern basis notwithstanding the Target Group and the Target Company had net current liabilities of HK\$55,019 and HK\$13,393 respectively as at 30 June 2012, and the Target Group incurred a loss of HK\$30,800 and HK\$24,227 for the period from 27 May 2011 to 31 March 2012 and for the three months ended 30 June 2012 respectively. The going concern basis has been adopted on the basis that the sole shareholder has undertaken to provide adequate financial support to the Target Group and the sole shareholder will not demand for repayment of debts due from the Target Group until such time when repayment will not affect the Target Group's ability to repay other debts in the normal course of business.

3.2 Basis of consolidation

The Target Group adopts merger accounting for the consolidation of the Target Company and Hirise in May 2012. Under the merger method, the Target Company has been treated as the holding company of Hirise for the financial periods presented rather than from the date of acquisition of Hirise. The consolidated financial statements of the Target Group have been prepared as if the Target Company had always been the holding company of the Target Group throughout the Relevant Periods. The results of the Target Group therefore included the results of the Target Company and Hirise for all periods presented or since their respective dates of incorporation/establishment/acquisition, where this is a shorter period.

All significant inter-company transactions and balances within the Target Group, including unrealised losses are eliminated. Where unrealised losses on intra-group asset sales are reversed on consolidated, the underlying asset is also tested for impairment from the Target Group's perspective.

3.3 *Subsidiaries*

Subsidiaries are entities (including special purpose entities) over which the Target Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are excluded from the consolidation from the date that control ceases.

In the Target Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Target Company on the basis of dividends received and receivable at the reporting date.

3.4 *Financial assets*

The Target Group's financial assets include cash and bank balances. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Target Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

3.5 *Accounting for income taxes*

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the tax periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss for the period.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, if any, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss for the period, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Target Group has the legally enforceable right to set off the recognised amounts; and
- (b) the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Target Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3.6 *Share capital*

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

3.7 *Financial liabilities*

Financial liabilities are recognised when the Target Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss for the period.

Accruals and amount due to a director are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method.

3.8 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.9 Foreign currency translation

In the Financial Information and the 30 June 2011 Corresponding Information, foreign currency transactions are translated into HK\$ using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss for the period.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

3.10 Related parties

- (a) A person or a close member of that person's family is related to the Target Group if that person:
 - (i) has control or joint control over the Target Group;
 - (ii) has significant influence over the Target Group; or
 - (iii) is a member of key management personnel of the Target Group or the Target Company's parent.

- (b) An entity is related to the Target Group if any of the following conditions apply:
- (i) the entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of the employees of 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); or
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

3.11 Provision and contingent liabilities

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

4. Critical Accounting Estimates and Judgements

Management of the Target Company did not use any critical accounting estimates and judgements in the preparation of the Financial Information.

5. Revenue and Operating Segment

The Target Group did not generate any revenue during the Relevant Periods and for the period from 27 May 2011 to 30 June 2011. No operating segment analysis is provided as the Target Group has no business operation since the respective dates of incorporation of the Target Company and its subsidiary.

6. Loss Before Income Tax

No auditors' remuneration and staff costs were incurred during the Relevant Periods and for the period from 27 May 2011 to 30 June 2011.

No compensation or any kind of benefit was paid to the Target Company's sole director in respect of his services during the Relevant Periods and for the period from 27 May 2011 to 30 June 2011. There was no arrangement under which the sole director waived or agreed to waive any remuneration during the Relevant Periods and for the period from 27 May 2011 to 30 June 2011.

7. Income Tax Expense

No provision for profits tax has been provided as the Target Group did not have any estimated assessable profit for each of the Relevant Periods and for the period from 27 May 2011 to 30 June 2011.

At the reporting date, there were no material unrecognised deferred tax assets or liabilities arising from any taxable temporary difference.

8. Investment in Subsidiary – Target Company

	At 30 June 2012
	HK\$
Unlisted share, at cost	<u><u>1</u></u>

Particulars of the subsidiary directly held by the Target Company are set out in note 1.

9. Amount Due from Shareholder – Target Company

The amount due is unsecured, interest-free and repayable on demand. The outstanding amount and maximum amount due from the shareholder during the Relevant Periods, disclosed pursuant to section 161B of the Hong Kong Companies Ordinance, are HK\$7.

10. Amount Due to Shareholder – Target Group

The amount due is unsecured, interest-free and repayable on demand.

11. Share Capital

For the purpose of this report, share capital of the Target Group as at 31 March 2012 and 30 June 2012 represented the issued share capital of the companies at each of the reporting dates as follows:

	At 31 March 2012 HK\$	At 30 June 2012 HK\$
Hirise (Incorporated in Hong Kong on 27 May 2011)	1	–
The Target Company (Incorporated in the BVI on 20 April 2012)	–	8
	<u>1</u>	<u>8</u>

Hirise was incorporated on 27 May 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. On the same day, 1 ordinary share of HK\$1 was issued as initial working capital of Hirise.

The Target Company was incorporated on 20 April 2012 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each. 1 ordinary share of US\$1 (equivalent to HK\$8) was issued as the Target Company's initial working capital. On 14 May 2012, Mr. Shi Hua disposed of all his equity interest in Hirise at the nominal consideration of HK\$1 to the Target Company. Upon completion of the transfer of share, the Target Company was the sole shareholder of Hirise.

12. Related Party Transactions

Save as disclosed elsewhere in the Financial Information, there was no other material related party transaction during the Relevant Periods and for the period from 27 May 2011 to 30 June 2011.

13. Capital Commitments and Contingent Liabilities

Save as disclosed elsewhere in the Financial Information, the Target Company and the Target Group did not have any other significant capital commitments and contingent liabilities as at 31 March 2012 and 30 June 2012.

14. Financial Risk Management – Target Group and Target Company

The Target Group does not have any written risk management policies and guidelines. However, the sole director of the Target Company periodically analyses and formulates measures to manage the Target Group's exposure to the risk associated with the financial instrument. Generally, as the Target Group has not yet commenced business up to the date of this report, the sole director of the Target Company considers the Target Group's exposure to foreign currency risk, interest rate risk, credit risk and liquidity risk is minimal. The Target Group has not used any derivatives or other financial instruments for hedging purposes.

At 30 June 2012, the Target Group's financial assets and financial liabilities stated at amortised cost consisted of cash and bank balances, accruals and amount due to shareholder. At 30 June 2012, the Target Company's financial assets and financial liabilities stated at amortised cost consisted of amount due from shareholder and accruals respectively.

Foreign currency risk

The Target Group does not have any significant exposures to foreign currency risk as the United States Dollars ("US\$") is pegged to the HK\$. Accordingly, the risk of movement of exchange rate between US\$ and HK\$ is insignificant.

Interest rate risk

As the Target Group does not have any interest-bearing asset or liability, its results and operating cash flows are substantially independent of changes in market interest rate.

Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation under the results that the Target Group thereby suffers financial loss. No financial assets carry a significant exposure to credit risk. In the opinion of the sole director, the exposures to credit risk on amount due from shareholder are limited. All the Target Group's cash and bank balances are held in the banks in Hong Kong. The credit risk on liquid funds is limited because the counterparties are the banks with good credit-rating. The Target Group has no significant concentrations of credit risk.

Liquidity risk

Liquidity risk relates to the risk that the Target Group will not be able to meet its obligations associated with its financial liabilities. The Target Group is exposed to liquidity risk in respect of settlement of accruals and amount due to shareholder.

The Target Group’s policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. The liquidity risk of the Target Group is managed by the cash and cash equivalents generated from the continuing financial support from its shareholder.

Amount due to shareholder by the Target Group is repayable on demand whereas accruals of the Target Group and the Target Company will be settled within 12 months from the reporting date. Based on the assessment of the sole director of the Target Company, liquidity risk encountered by the Target Group and the Target Company is not significant.

Categories of financial assets and liabilities

The carrying amounts of the financial assets and liabilities as recognised at each of the reporting dates are categorised as follows. See notes 3.4 and 3.7 for explanations about how the categorisation of financial instruments affects their subsequent measurements.

	Target Group HK\$	Target Company HK\$
Financial assets		
Loans and receivables:		
At 31 March 2012		
Cash and bank balances	10,049,401	–
At 30 June 2012		
Cash and bank balances	48,024	–
Amount due from shareholder	–	7
	48,024	7

APPENDIX III

ACCOUNTANTS' REPORT OF THE TARGET GROUP

	Target Group <i>HK\$</i>	Target Company <i>HK\$</i>
<i>Financial liabilities</i>		
Financial liabilities at amortised cost:		
At 31 March 2012		
Accruals	6,000	–
Amount due to shareholder	10,074,200	–
	<u>10,080,200</u>	<u>–</u>
At 30 June 2012		
Accruals	34,350	13,400
Amount due to shareholder	74,193	–
	<u>108,543</u>	<u>13,400</u>

Fair values

The fair values of the Target Group’s and the Target Company’s financial assets and liabilities are not materially different from their carrying amounts because of the immediate and short term maturities.

15. Capital Management

The Target Group's capital management objectives are:

- (i) to ensure the Target Group's ability to continue as a going concern; and
- (ii) to provide an adequate return to shareholder.

The Target Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholder, issue new shares, return capital to shareholder or raise new debt financing to reduce debts.

The Target Group currently does not adopt any formal dividend policy. Management regards total equity as capital, for capital management purpose.

III. EVENTS AFTER THE REPORTING DATE

Pursuant to a share transfer agreement dated 1 June 2012, Mr. Shi Hua, the ultimate controlling shareholder of the Target Group, transferred 47.38% equity interests in the Project Company to Hirise. The transfer, as part of the Group Restructuring, was completed on 13 July 2012.

Save as disclosed above, no other event has been noted for the Target Group in respect of period subsequent to 30 June 2012.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Target Group or the Target Company in respect of any period subsequent to 30 June 2012.

Yours faithfully,

BDO Limited

Certified Public Accountants

Au Yiu Kwan

Practising Certificate Number P05018

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永安中心25樓

28 November 2012

The Directors
China Boon Holdings Limited
Room 2118, Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

Dear Sirs,

We set out below our report on the financial information of 浙江安賢陵園有限責任公司 Zhejiang Anxian Yuan Company Limited* (the “Project Company”) including the statements of financial position of the Project Company as at 31 December 2009, 2010 and 2011 and 30 June 2012, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Project Company for each of the three years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2012 (the “Relevant Periods”) and notes thereto (hereinafter collectively referred to as the “Financial Information”), together with the unaudited financial information of the Project Company including the statement of comprehensive income, the statement of cash flows and the statement of changes in equity of the Project Company for the six months ended 30 June 2011 (the “30 June 2011 Corresponding Information”), prepared for inclusion in the circular issued by China Boon Holdings Limited (the “Company”) dated 28 November 2012 (the “Circular”) in connection with the proposed acquisition of the entire issued share capital of Jia Yuan Trading Limited (the “Target Company”), by a wholly-owned subsidiary of the Company (the “Proposed Acquisition”). As at the date of this Circular, the equity interests in the Project Company held indirectly by the Company and the Target Company were 51.00% and 47.38% respectively. Upon completion of the Proposed Acquisition, the effective interest of the Company in the Project Company will be 98.38%.

* The unofficial English translation is for identification purposes only

The Project Company was established in the People's Republic of China (the "PRC") on 26 April 1999 with a registered capital of RMB2,400,000. Pursuant to the resolutions passed on 30 October 2009, 5 May 2011 and 5 June 2011, its registered capital was increased to RMB5,000,000, RMB6,000,000 and RMB85,000,000 respectively. On 27 October 2011, the Project Company was granted a certificate of approval and on 23 December 2011, it became a sino-foreign equity joint venture in the PRC. Its registered office is located at Shuihongmiao Cun, Congxian Town, Yu Hang District, Hangzhou, Zhejiang, the PRC (中國浙江省杭州市余杭區崇賢鎮水洪廟村). The Project Company is principally engaged in the business of developing and operating cemetery during the Relevant Periods. The Project Company adopts 31 December as its financial year end date. The statutory financial statements of the Project Company prepared in accordance with the generally accepted accounting principles of the PRC for the three years ended 31 December 2009, 2010 and 2011 have been audited by Hang Zhou Lian Xin Certified Public Accountants Co., Ltd. (杭州聯信會計師事務所). We have not acted as auditors of the Project Company for the Relevant Periods referred to in this report.

For the purpose of this report, the directors of the Project Company have prepared the financial statements of the Project Company for the Relevant Periods (the "Underlying Financial Statements") in accordance the accounting policies set out in note 3 of Section II below which comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared based on the Underlying Financial Statements. No adjustments on the Underlying Financial Statements for the Relevant Periods are considered necessary for the purpose of preparing the Financial Information.

The directors of the Project Company are responsible for the contents of the Circular including the preparation and the true and fair presentation of the Financial Information in accordance with the accounting policies set out in note 3 of Section II below which comply with HKFRSs, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), and for such internal control as the directors of the Project Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures and to report our opinion to you.

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Financial Information of the Project Company and carried out appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the Financial Information gives a true and fair view of the state of affairs of the Project Company as at 31 December 2009, 2010 and 2011 and 30 June 2012 and of its profits and cash flows for each of the Relevant Periods in accordance with HKFRSs.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have reviewed the 30 June 2011 Corresponding Information, which is prepared in accordance with HKFRSs and Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. The directors of the Project Company are responsible for the preparation and presentation of the 30 June 2011 Corresponding Information in accordance with the accounting policies set out in note 3 of Section II below which comply with HKFRSs, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. Our responsibility is to express a conclusion on the 30 June 2011 Corresponding Information based on our review. A review principally consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures to the 30 June 2011 Corresponding Information. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2011 Corresponding Information.

REVIEW CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2011 Corresponding Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

APPENDIX IV

ACCOUNTANTS' REPORT OF THE PROJECT COMPANY

I. FINANCIAL INFORMATION

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June	
		2009	2010	2011	2012	2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Revenue	6	41,840	98,613	92,098	27,454	65,343
Cost of sales		(11,709)	(31,456)	(27,392)	(6,742)	(21,729)
Gross profit		30,131	67,157	64,706	20,712	43,614
Other income	6	1,143	499	295	501	138
Selling expenses		(2,900)	(9,331)	(11,390)	(3,982)	(5,900)
Administrative expenses		(13,180)	(24,411)	(31,403)	(7,782)	(20,169)
Other operating expenses		–	(12)	(137)	–	–
Finance costs	7	(2,322)	(788)	(2,202)	–	(2,202)
Profit before income tax	8	12,872	33,114	19,869	9,449	15,481
Income tax expenses	9	(3,917)	(8,667)	(5,348)	(2,528)	(4,359)
Profit for the year/period attributable to the owners of the Project Company		8,955	24,447	14,521	6,921	11,122
Other comprehensive income for the year/ period attributable to the owners of the Project Company		–	–	–	–	–
Total comprehensive income for the year/period attributable to the owners of the Project Company		8,955	24,447	14,521	6,921	11,122

STATEMENTS OF FINANCIAL POSITION

		2009	At 31 December 2010	2011	At 30 June 2012
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	12	5,727	4,888	5,505	4,842
Investment properties	13	1,675	1,415	1,155	1,025
Deferred expenditure	14	23,417	67,332	65,709	64,042
Deferred tax assets	15	3,127	2,862	2,597	2,465
		33,946	76,497	74,966	72,374
Current assets					
Inventories		5,451	4,974	4,808	8,157
Development and formation costs	20	–	–	64,564	115,175
Trade receivables	16	–	37,000	38,800	8,800
Prepayments and other receivables	17	1,611	5,120	36,265	18,658
Amounts due from directors	24	22	–	–	–
Amounts due from shareholders	25	486	–	–	–
Amount due from ultimate holding company	25	–	–	–	574
Amounts due from related companies	26	1,747	1,055	444	414
Pledged bank deposits	18	–	–	–	30,000
Cash and bank balances	19	15,622	15,300	9,391	8,088
		24,939	63,449	154,272	189,866
Current liabilities					
Trade payables	21	12,921	25,502	21,395	23,327
Accrued liabilities, other payables, deposits received and receipts in advance	22	6,137	11,688	23,390	20,893
Interest-bearing bank borrowings	23	24,300	15,000	35,000	78,000
Amount due to a director	25	–	–	70	70
Amounts due to shareholders	25	–	25,298	21,787	20,897
Amount due to immediate holding company	25	–	–	10,932	10,932
Amount due to ultimate holding company	25	–	6,000	–	–
Amount due to a fellow subsidiary	25	–	10,636	8,477	1,819
Amount due to a related company	25	–	318	173	246
Tax payables		8,296	16,698	21,781	21,664
		51,654	111,140	143,005	177,848

APPENDIX IV

ACCOUNTANTS' REPORT OF THE PROJECT COMPANY

	<i>Notes</i>	At 31 December			At 30 June
		2009	2010	2011	2012
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net current (liabilities)/assets		(26,715)	(47,691)	11,267	12,018
Total assets less current liabilities		7,231	28,806	86,233	84,392
Non-current liabilities					
Receipts in advance	22	–	2,565	4,190	4,087
Net assets		7,231	26,241	82,043	80,305
EQUITY					
Paid-up capital	27	5,000	5,000	85,000	85,000
Reserves	28	2,231	21,241	(2,957)	(4,695)
Total equity		7,231	26,241	82,043	80,305

STATEMENTS OF CHANGES IN EQUITY

	Paid-up capital <i>RMB'000</i>	Statutory reserves <i>RMB'000</i> <i>(note 28)</i>	Contribution from a shareholder <i>RMB'000</i> <i>(note 28)</i>	(Accumulated losses)/ Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009	2,400	1,014	–	(2,302)	1,112
Total comprehensive income for the year	–	–	–	8,955	8,955
Transactions with owners:					
– Capital contributions <i>(note 27)</i>	2,600	–	–	–	2,600
– Dividend paid <i>(note 10)</i>	–	–	–	(5,436)	(5,436)
	2,600	–	–	(5,436)	(2,836)
Appropriations	–	1,124	–	(1,124)	–
At 31 December 2009 and 1 January 2010	5,000	2,138	–	93	7,231
Total comprehensive income for the year	–	–	–	24,447	24,447
Transactions with owners:					
– Dividend paid (note 10)	–	–	–	(8,427)	(8,427)
– Initial recognition of amount due to a shareholder	–	–	2,990	–	2,990
	–	–	2,990	(8,427)	(5,437)
Appropriations	–	362	–	(362)	–
At 31 December 2010 and 1 January 2011	5,000	2,500	2,990	15,751	26,241
Total comprehensive income for the year	–	–	–	14,521	14,521

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ACCOUNTANTS' REPORT OF THE PROJECT COMPANY

	Paid-up capital <i>RMB'000</i>	Statutory reserves <i>RMB'000</i> <i>(note 28)</i>	Contribution from a shareholder <i>RMB'000</i> <i>(note 28)</i>	(Accumulated losses)/ Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
Transactions with owners:					
– Capital contributions <i>(note 27)</i>	80,000	–	–	–	80,000
– Dividend paid <i>(note 10)</i>	–	–	–	(38,719)	(38,719)
	80,000	–	–	(38,719)	41,281
Appropriations	–	866	–	(866)	–
At 31 December 2011 and 1 January 2012	85,000	3,366	2,990	(9,313)	82,043
Total comprehensive income for the period	–	–	–	6,921	6,921
Transactions with owners:					
– Dividend paid <i>(note 10)</i>	–	–	–	(8,659)	(8,659)
At 30 June 2012	<u>85,000</u>	<u>3,366</u>	<u>2,990</u>	<u>(11,051)</u>	<u>80,305</u>
For the six months ended 30 June 2011 (Unaudited)					
At 1 January 2011	5,000	2,500	2,990	15,751	26,241
Total comprehensive income for the period	–	–	–	11,122	11,122
Transactions with owners:					
– Capital contribution <i>(note 27)</i>	80,000	–	–	–	80,000
At 30 June 2011 (Unaudited)	<u>85,000</u>	<u>2,500</u>	<u>2,990</u>	<u>26,873</u>	<u>117,363</u>

STATEMENTS OF CASH FLOWS

					Six months ended	
					30 June	
					2012	2011
					RMB'000	RMB'000
					(Unaudited)	
Notes	2009	2010	2011			
	RMB'000	RMB'000	RMB'000			
Cash flows from operating activities						
Profit before income tax		12,872	33,114	19,869	9,449	15,481
Adjustments for:						
Amortisation of deferred expenditure	8	1,283	2,643	3,681	1,807	1,828
Bank interest income	6	(42)	(51)	(121)	(37)	(51)
Depreciation of investment properties	8	425	260	260	130	130
Depreciation of property, plant and equipment	8	1,987	1,178	1,432	711	799
(Gain)/Loss on disposals of property, plant and equipment	6, 8	(616)	52	9	4	—
Imputed interest of trade payables stated at amortised cost	6	(260)	(448)	(174)	(464)	(87)
Interest expenses	7	2,322	788	2,202	—	2,202
Write-off of other receivables	8	—	500	—	—	—
Operating profit before working capital changes		17,971	38,036	27,158	11,600	20,302
(Increase)/decrease in inventories		(798)	477	166	(3,349)	132
Increase in development and formation costs	31	—	—	(62,717)	(48,100)	(3,638)
(Increase)/decrease in trade receivables		—	(37,000)	(1,800)	30,000	(21,800)
Decrease/(increase in prepayments and other receivables	31	4,981	(4,009)	(31,145)	(7,743)	(29,279)
Decrease in amounts due from directors		2	22	—	—	—
(Increase)/decrease in amounts due from shareholders		(486)	486	—	—	—

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ACCOUNTANTS' REPORT OF THE PROJECT COMPANY

		Year ended 31 December			Six months ended 30 June	
		2009	2010	2011	2012	2011
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Decrease/(increase) in amounts due from related companies		83	692	611	30	(4,378)
Increase/(decrease) in trade payables		5,682	12,769	(4,381)	2,396	(174)
Increase/(decrease) in accrued liabilities, other payables, deposits received and receipts in advance		2,009	8,116	13,327	(2,600)	6,089
Increase in amount due to a director		–	–	70	–	70
Increase/(decrease) in amount due to a fellow subsidiary		–	10,636	(2,159)	(6,658)	12,879
(Decrease)/increase in amount due to a related company		(3,750)	318	(145)	73	(222)
Cash generated from/ (used in) operations		25,694	30,543	(61,015)	(24,351)	(20,019)
Interest received		42	51	121	37	51
Income tax paid		–	–	–	(2,513)	–
Net cash generated from/ (used in) operating activities		25,736	30,594	(60,894)	(26,827)	(19,968)
Cash flows from investing activities						
Additions in deferred expenditure	31	(3,732)	(7,825)	(2,058)	(140)	(1,252)
Purchases of property, plant and equipment		(159)	(391)	(2,058)	(52)	(1,787)
Proceeds from disposals of property, plant and equipment		3,502	–	–	–	–
Increase in amount due from ultimate holding company		–	–	–	(574)	–
Increase in pledged bank deposits		–	–	–	(30,000)	–

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ACCOUNTANTS' REPORT OF THE PROJECT COMPANY

		Year ended 31 December			Six months ended 30 June	
		2009	2010	2011	2012	2011
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Net cash used in investing activities		(389)	(8,216)	(4,116)	(30,766)	(3,039)
Cash flows from financing activities						
Capital contributions	27	2,600	–	80,000	–	80,000
(Decrease)/Increase in amounts due to shareholders	31	(500)	(9,740)	(27,052)	19,989	(27,243)
Increase/(decrease) in amount due to ultimate holding company	31	–	6,000	(6,000)	–	(6,000)
Proceeds from interest-bearing bank borrowings		34,300	–	76,000	43,000	35,000
Repayments of interest-bearing bank borrowings		(39,800)	(9,300)	(56,000)	–	(9,550)
Dividends paid	10	(5,436)	(8,427)	(6,000)	(4,188)	–
Interest paid		(2,158)	(1,233)	(1,847)	(2,511)	(946)
Net cash (used in)/generated from financing activities		(10,994)	(22,700)	59,101	56,290	71,261
Net increase/(decrease) in cash and cash equivalents		14,353	(322)	(5,909)	(1,303)	48,254
Cash and cash equivalents at beginning of the year/period		1,269	15,622	15,300	9,391	15,300
Cash and cash equivalents at end of the year/period		15,622	15,300	9,391	8,088	63,554

**II. NOTES TO THE FINANCIAL INFORMATION AND THE 30 JUNE 2011
CORRESPONDING INFORMATION****1. Corporate Information**

The Project Company was established in the PRC on 26 April 1999 for an operating period of 20 years. As at 1 January 2009, its registered and paid-up capital was RMB2,400,000. Pursuant to the resolutions passed on 30 October 2009, 5 May 2011 and 5 June 2011, its registered capital was increased to RMB5,000,000, RMB6,000,000 and RMB85,000,000 respectively. On 27 October 2011, the Project Company was granted a certificate of approval and became a sino-foreign equity joint venture in the PRC. Its registered office and its principal place of business are located at Shuihongmiao Cun, Congxian Town, Yu Hang District, Hangzhou, Zhejiang, the PRC (中國浙江省杭州市余杭區崇賢鎮水洪廟村). The Project Company is principally engaged in the business of developing and operating cemetery.

On 19 November 2010, China Boon Holdings Limited, a company incorporated in the Bermuda with limited liability with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited, acquired the effective controlling interest in the Project Company through its wholly owned subsidiary, Anxian Yuan (HK) Limited, a company incorporated in Hong Kong with limited liability. Since then, the directors consider the Project Company's ultimate holding company and immediate holding company as China Boon Holdings Limited and Anxian Yuan (HK) Limited respectively.

2. Adoption of New or Amended HKFRSs

During the Relevant Periods, the Project Company has adopted all the new and amended HKFRSs issued by the HKICPA which are relevant to the Project Company and effective for the reporting period.

At the date of this report, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Project Company.

The directors of the Project Company anticipate that all of the pronouncements will be adopted in the Project Company's accounting policy for the first period beginning after the effective date of the pronouncement. The directors of the Project Company are currently assessing the impact of the new and amended HKFRSs upon initial application. So far, the directors of the Project Company have preliminarily concluded that the initial application of these HKFRSs will not result in material financial impact on the Financial Information and the 30 June 2011 Corresponding Information. Information on new and amended HKFRSs that are expected to have an impact on the Project Company's accounting policies is provided below.

HKFRS 9 – Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2015. Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for de-recognition of financial assets and financial liabilities.

3. Summary of Significant Accounting Policies***3.1 Basis of preparation***

The Financial Information and the 30 June 2011 Corresponding Information set out in this report have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and have been consistently applied throughout the Relevant Periods. The Financial Information and the 30 June 2011 Corresponding Information also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

The significant accounting policies that have been used in the preparation of the Financial Information and the 30 June 2011 Corresponding Information are summarised below. These policies have been consistently applied throughout the Relevant Periods unless otherwise stated.

The Financial Information and the 30 June 2011 Corresponding Information have been prepared under historical cost convention. The measurement bases are fully described in the accounting policies below.

The functional currency of the Project Company is Renminbi (“RMB”). The Financial Information and the 30 June 2011 Corresponding Information are presented in RMB. All values are rounded to nearest thousand except when otherwise stated.

It should be noted that accounting estimates and assumptions are used in preparation of the Financial Information and the 30 June 2011 Corresponding Information. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information and the 30 June 2011 Corresponding Information are described in note 4.

3.2 *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Depreciation is provided to write off the cost less their estimated residual values, if any, over their estimated useful lives, using straight-line method, at the following rates per annum.

Buildings	10% – 20%
Leasehold improvements	20%
Furniture, fixtures and equipment	20% – 33%
Motor vehicles	20%

The assets’ estimated residual values, if any, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gain or loss arising on retirement or disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

3.3 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest for long-term rental yields or for capital appreciation or both.

Cost model is applied whereby investment properties are measured initially at its cost, including any directly attributable expenditure. After initial recognition, investment properties are carried at cost less accumulated depreciation, and impairment losses, if any.

Depreciation is calculated on straight-line method to write off the cost of investment properties over its estimated useful life. The principal annual rate used for this purpose is the shorter of the lease terms and 10 years.

Gain or loss on disposal or retirement of an investment property is determined as the difference between the net sales proceeds and the carrying amount of the investment property and is recognised in profit or loss.

3.4 Impairment of non-financial assets

Property, plant and equipment, investment properties and deferred expenditure are subject to impairment testing whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit ("CGU")). As a result, some assets are tested individually for impairment and some are tested at CGU level.

Impairment loss recognised for CGUs is charged pro rata to the assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.5 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Project Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Project Company are classified as operating leases.

Where the Project Company has the right to use of assets held under operating leases, payments made under the leases are charged as an expense in profit or loss on straight-line method over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the period in which they are incurred.

3.6 Financial assets

The Project Company's financial assets mainly include trade receivables, other receivables, amounts due from directors, shareholders, ultimate holding company and related companies, pledged bank deposits and cash and bank balances. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at each reporting date.

All financial assets are recognised when, and only when, the Project Company becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and subsequently measured at amortised cost using effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each reporting date, financial assets are reviewed to assess whether there is any objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Project Company about one or more of the following loss events:

- (i) Significant financial difficulty of the debtor;
- (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) It becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- (iv) Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Impairment losses are written off against the corresponding assets directly. Where the recovery of receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Project Company is satisfied that recovery of receivables is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3.7 *Financial liabilities*

The Project Company's financial liabilities include interest-bearing bank borrowings, trade payables, accrued liabilities, other payables and amounts due to a director, shareholders, immediate holding company, ultimate holding company, a fellow subsidiary and a related company.

Financial liabilities are recognised when the Project Company becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Project Company's accounting policy for borrowing costs (see note 3.14).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using effective interest method.

Borrowings are classified as current liabilities unless the Project Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Trade payables, accrued liabilities, other payables and amounts due to related a director, shareholders, immediate holding company, ultimate holding company, a fellow subsidiary and a related company

These are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method.

3.8 Development and formation costs

Development and formation costs represent development cost incurred for tombs and columbarium niches in the cemetery site. These are stated at the lower of cost or net realisable value, and are transferred to inventories when relevant tombs/ niches are completed and ready for sale.

3.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average method, and in the case of finished goods, which represent tombs and columbarium niches, comprises the cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling prices in the ordinary course of business less any applicable selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

3.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.11 Paid-up capital

Paid-up capital is classified as equity. This is accounted for based on the proceeds from capital contributions made by the investors.

3.12 Accounting for income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date. These are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year/period. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss for the year/period.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, if any, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss. Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Project Company has the legally enforceable right to set off the recognised amounts; and
- (b) the Project Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Project Company presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3.13 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and the use by others of the Project Company's assets yielding interest, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Project Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- (a) sale of tombs/niches are recognised upon transfer of significant risks and rewards of ownership to the buyer, provided that the Project Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customer has accepted the goods;
- (b) management fee income is recognised on straight-line method over the contract terms which are generally ten years;
- (c) interest income is recognised on time-proportion basis using effective interest method.

3.14 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

3.15 Deferred expenditure

Deferred expenditure are mainly costs incurred on public facilities to enhance better landscape and environment to the cemetery, such as tree plantation. These are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss on straight-line method over the estimated useful lives of 20 years.

3.16 Retirement benefits

Retirement benefits to employee are provided through defined contribution plans. Pursuant to the relevant regulations of the PRC government, the Project Company is required to participate in central pension schemes operated by the respective local municipal governments, whereby the Project Company is required to contribute a certain percentage of the basic salaries of their employees to the scheme to fund their retirement benefits. The scheme is responsible for the entire pension obligations payable to the retired employees and the Project Company has no further obligations for the actual pension payments or other post-retirement benefits beyond the employer contributions. Contributions under the scheme are charged to profit or loss as they become payable in accordance with the rules and regulations in the PRC.

3.17 Provisions and contingent liabilities

Provisions are recognised when the Project Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligations can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

3.18 Segment reporting

The Project Company identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Project Company's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Project Company's major product and service lines.

3.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Project Company will comply with all attached conditions. Government grants relating to income is presented in gross under "Other income" in profit or loss.

3.20 Related parties

- (a) A person or a close member of that person's family is related to the Project Company if that person:
 - (i) has control or joint control over the Project Company;
 - (ii) has significant influence over the Project Company; or
 - (iii) is a member of key management personnel of the Project Company or the Project Company's parent.
- (b) An entity is related to the Project Company if any of the following conditions apply:
 - (i) the entity and the Project Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

- (iii) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of the employees of the Project Company or an entity related to the Project Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); or
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

4. Critical Accounting Estimates and Judgements

In applying the Project Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year/period are as follows:

(a) *Depreciation and amortisation of non-financial assets*

The Project Company's management exercises its judgement in estimating the useful lives and residual values of its property, plant and equipment, investment properties and deferred expenditure. These expenditures are depreciated/amortised in accordance with the accounting policies stated in notes 3.2, 3.3 and 3.15 respectively. The estimated useful lives and residual values reflect the management's estimate of the periods the Project Company intends to derive future economic benefits from the use of these assets.

(b) *Estimated impairment of non-financial assets*

The Project Company assesses whether there are any indicators of impairment for all the non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. The recoverable amounts of CGUs are determined based on value-in-use calculations. These calculations require the use of judgement and estimates of the future cash flows expected to arise from the assets or CGU, the timeframe for the cash flows forecast and the suitable discount rate in order to calculate the present value.

(c) *Net realisable value of inventories and development and formation costs*

Net realisable value of inventories and development and formation costs are the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. The Project Company's management reassesses the estimations at the reporting date.

(d) *Estimated impairment of receivables (including trade and other receivables)*

The Project Company's management reassesses the collectibility of receivables on a regular basis. These estimates are based on the past collection, credit history and ageing analysis of the Project Company's receivables, as well as the current economy and market condition. Impairment on receivables is made based on the estimation of the future cash flow expected to arise and the original effective interest rate in order to calculate the present value. Management reassesses the impairment of receivables, if any, at each of the reporting date.

(e) *Income tax*

The Project Company is subject to income tax in the PRC jurisdiction. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Project Company recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In the opinion of the directors, the current tax position is a fair reflection of the judgement exercised by them with respect to such transactions.

5. Segment Information

On adoption of HKFRS 8, the Project Company has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Project Company's executive directors for their decisions about resources allocation to the Project Company's business components and review of these components' performance. There is only one single business component/reportable segment in the internal reporting to the executive directors, which is cemetery business. The Project Company's assets and capital expenditure are principally attributable to this business component.

No separate analysis of segment information by geographical segment is presented as the Project Company's revenue, assets and capital expenditure are principally attributable to a single geographical region, which is the PRC.

6. Revenue and Other Income

Revenue of the Project Company recognised during the Relevant Periods and for the six months ended 30 June 2011 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
Revenue					
Sales of tombs	41,840	44,463	51,936	27,193	25,430
Sales of niches	–	54,150	39,710	–	39,710
Management fee income	–	–	452	261	203
	<u>41,840</u>	<u>98,613</u>	<u>92,098</u>	<u>27,454</u>	<u>65,343</u>
Other income					
Bank interest income	42	51	121	37	51
Government grants (note)	115	–	–	–	–
Compensation received	105	–	–	–	–
Gain on disposal of property, plant and equipment	616	–	–	–	–
Imputed interest on trade payables stated at amortised cost	260	448	174	464	87
Others	<u>5</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>1,143</u></u>	<u><u>499</u></u>	<u><u>295</u></u>	<u><u>501</u></u>	<u><u>138</u></u>

Note: Government grants comprised unconditional subsidy for the Project Company's cemetery operations.

7. Finance Costs

	Year ended 31 December			Six months ended	
				30 June	
	2009	2010	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Interest charged on:					
Bank borrowings					
stated at					
amortised cost					
wholly repayable					
within five years	2,158	1,233	1,847	2,511	946
Imputed interest					
charged on:					
Trade payables					
stated at					
amortised cost	164	260	448	–	448
Amounts due to a					
shareholder	–	528	1,754	–	1,754
Less: Amount					
capitalised in					
development					
and formation					
costs/deferred					
expenditure	–	(1,233)	(1,847)	(2,511)	(946)
	2,322	788	2,202	–	2,202

* Borrowing costs were capitalised at the rates of 3.68%, 8.26%, 7.37% and 4.06% per annum for the years ended 31 December 2010 and 2011 and for the six months ended 30 June 2011 and 2012 respectively.

8. Profit Before Income Tax

Profit before income tax is arrived at after charging:

	Year ended 31 December			Six months ended	
	2009	2010	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Amortisation of deferred expenditure	1,283	2,643	3,681	1,807	1,828
Auditors' remuneration	15	11	41	–	–
Cost of inventories recognised as an expense	8,426	5,699	6,028	3,372	2,949
Development and formation costs recognised as expense	–	–	732	1,563	–
Depreciation of investment properties	425	260	260	130	130
Depreciation of property, plant and equipment	1,987	1,178	1,432	711	799
Loss on disposals of property, plant and equipment	–	52	9	4	–
Write-off of other receivables	–	500	–	–	–
Minimum lease payments under operating leases in respect of land and buildings	187	563	959	497	623

9. Income Tax Expense

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Enterprise income tax in the PRC:					
Current tax	3,517	8,402	5,083	2,396	4,227
Deferred tax (<i>note 15</i>)	400	265	265	132	132
	<u>3,917</u>	<u>8,667</u>	<u>5,348</u>	<u>2,528</u>	<u>4,359</u>

PRC enterprise income tax is provided based on the statutory income tax rate of 25% during the Relevant Periods and for the six months ended 30 June 2011.

Reconciliation between income tax expense and accounting profit at the applicable tax rates during the Relevant Periods and for the six months ended 30 June 2011 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2009	2010	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Profit before income tax	<u>12,872</u>	<u>33,114</u>	<u>19,869</u>	<u>9,449</u>	<u>15,481</u>
Tax on profit before income tax, calculated at the rates applicable to profit in tax jurisdictions concerned	3,218	8,278	4,967	2,362	3,870
Tax effect of non-deductible expenses	299	124	116	34	357
Tax effect of taxable temporary differences	<u>400</u>	<u>265</u>	<u>265</u>	<u>132</u>	<u>132</u>
Income tax expense	<u>3,917</u>	<u>8,667</u>	<u>5,348</u>	<u>2,528</u>	<u>4,359</u>

10. Dividends

Interim dividends of approximately RMB5,436,000 and RMB8,427,000 were recognised and fully paid as distributions for each of the two years ended 31 December 2009 and 31 December 2010 respectively.

Interim dividends of approximately RMB38,719,000 and RMB8,659,000 were recognised as distributions for the year ended 31 December 2011 and the six months ended 30 June 2012 respectively (six months ended 30 June 2011: Nil).

11. Directors' Remuneration and Senior Management's Emoluments**(a) Directors' emoluments**

	Year ended 31 December			Six months ended	
	2009	2010	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Fees	–	–	–	–	–
Basic salaries, housing and other allowances and benefits in kind					
– Shi Hua	152	143	173	64	76
– Shi Jun	133	128	173	76	76
– Shen Mingzhen	110	101	133	59	58
– Chen Jinjuan (<i>note i</i>)	99	102	–	–	–
– Lu Guofu (<i>note i</i>)	110	105	–	–	–
– Chen Hui (<i>note ii</i>)	–	–	–	–	–
– Law Fei Shing (<i>note ii</i>)	–	–	–	–	–
– Leung Chi Wah Earnest (<i>note iii</i>)	–	–	–	–	–
– Chui Ka Wa (<i>note iii</i>)	–	–	–	–	–
	604	579	479	199	210
Retirement benefits scheme contributions					
– Shi Hua	10	17	16	9	9
– Shi Jun	9	15	16	8	8
– Shen Mingzhen	8	–	–	–	–
– Chen Jinjuan (<i>note i</i>)	–	–	–	–	–
– Lu Guofu (<i>note i</i>)	8	12	–	–	–
– Chen Hui (<i>note ii</i>)	–	–	–	–	–
– Law Fei Shing (<i>note ii</i>)	–	–	–	–	–
– Leung Chi Wah Earnest (<i>note iii</i>)	–	–	–	–	–
– Chui Ka Wa (<i>note iii</i>)	–	–	–	–	–
	35	44	32	17	17
	639	623	511	216	227

Notes:

- (i) Resigned on 16 November 2010
- (ii) Appointed on 16 November 2010
- (iii) Appointed on 16 November 2010 and resigned on 1 June 2012

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Project Company for the Relevant Periods included 4, 5, 5 and 5 directors for the years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2012 respectively (Six months ended 30 June 2011: 5 directors), whose emoluments were reflected in the analysis presented in note (a) above. The emoluments payable to the remaining 1, Nil, Nil and Nil individual during the years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2012 are as follows (six months ended 30 June 2011: Nil remaining individual):

	Year ended 31 December			Six months ended	
	2009	2010	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Salaries and allowance	150	–	–	–	–
Retirement benefits scheme contributions	6	–	–	–	–
	156	–	–	–	–

The emoluments fell within the following bands:

	Number of individuals			Six months ended	
	Year ended 31 December			30 June	
	2009	2010	2011	2012	2011
					(Unaudited)
Emolument bands					
HK\$ Nil – HK\$1,000,000 (equivalent to RMBNil – RMB854,300)	1	–	–	–	–

(c) No emoluments were paid by the Project Company to the directors or the highest paid individuals as an inducement to join or upon joining the Project Company, or as compensation for loss of office during the Relevant Periods (six months ended 30 June 2011: Nil). There were no arrangements under which the directors waived or agreed to waive any remuneration during the Relevant Periods (six months ended 30 June 2011: Nil).

12. Property, Plant and Equipment

	Buildings	Leasehold	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	improvements RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009					
Cost	14,843	571	483	3,659	19,556
Accumulated depreciation	(6,397)	(534)	(321)	(1,863)	(9,115)
Net carrying amount	8,446	37	162	1,796	10,441
Year ended 31 December 2009					
Opening net carrying amount	8,446	37	162	1,796	10,441
Additions	–	2	157	–	159
Disposals	(2,880)	–	–	(6)	(2,886)
Depreciation	(1,334)	(29)	(78)	(546)	(1,987)
Closing net carrying amount	4,232	10	241	1,244	5,727
At 31 December 2009 and 1 January 2010					
Cost	6,343	573	640	3,461	11,017
Accumulated depreciation	(2,111)	(563)	(399)	(2,217)	(5,290)
Net carrying amount	4,232	10	241	1,244	5,727

	Buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2010					
Opening net carrying amount	4,232	10	241	1,244	5,727
Additions	–	–	113	278	391
Disposals	–	–	–	(52)	(52)
Depreciation	(630)	(6)	(117)	(425)	(1,178)
Closing net carrying amount	<u>3,602</u>	<u>4</u>	<u>237</u>	<u>1,045</u>	<u>4,888</u>
At 31 December 2010 and 1 January 2011					
Cost	6,197	11	432	2,035	8,675
Accumulated depreciation	<u>(2,595)</u>	<u>(7)</u>	<u>(195)</u>	<u>(990)</u>	<u>(3,787)</u>
Net carrying amount	<u>3,602</u>	<u>4</u>	<u>237</u>	<u>1,045</u>	<u>4,888</u>
Year ended 31 December 2011					
Opening net carrying amount	3,602	4	237	1,045	4,888
Additions	–	–	126	1,932	2,058
Disposals	–	–	–	(9)	(9)
Depreciation	(630)	(1)	(185)	(616)	(1,432)
Closing net carrying amount	<u>2,972</u>	<u>3</u>	<u>178</u>	<u>2,352</u>	<u>5,505</u>
At 31 December 2011 and 1 January 2012					
Cost	6,098	6	301	3,653	10,058
Accumulated depreciation	<u>(3,126)</u>	<u>(3)</u>	<u>(123)</u>	<u>(1,301)</u>	<u>(4,553)</u>
Net carrying amount	<u>2,972</u>	<u>3</u>	<u>178</u>	<u>2,352</u>	<u>5,505</u>

	Buildings	Leasehold	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30					
June 2012					
Opening net carrying amount	2,972	3	178	2,352	5,505
Additions	–	–	52	–	52
Disposals	–	–	–	(4)	(4)
Depreciation	(305)	(1)	(51)	(354)	(711)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing net carrying amount	<u>2,667</u>	<u>2</u>	<u>179</u>	<u>1,994</u>	<u>4,842</u>
At 30 June 2012					
Cost	6,098	6	338	3,535	9,977
Accumulated depreciation	(3,431)	(4)	(159)	(1,541)	(5,135)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net carrying amount	<u>2,667</u>	<u>2</u>	<u>179</u>	<u>1,994</u>	<u>4,842</u>

At 31 December 2009, 2010 and 2011 and 30 June 2012, the Project Company's buildings with aggregated carrying amounts of approximately RMB4,065,000, RMB3,465,000, RMB2,865,000 and RMB2,576,000 respectively were situated on the land in the PRC granted to the Project Company by Hangzhou City Housing and Land Resources Bureau on 5 June 2003 at no consideration. The land is restricted for cemetery use with infinite lease term and is not freely transferable under the land use rights certificate (杭余國用(2003)字第8-834號) .

The remaining buildings with a net carrying amounts of approximately RMB167,000, RMB137,000, RMB107,000, and RMB91,000 as at 31 December 2009, 2010 and 2011 and 30 June 2012 respectively were situated in the PRC and are held on leases under medium term.

Certain motor vehicles with carrying amounts of approximately RMB1,137,000, RMB718,000, RMB1,693,000 and RMB1,417,000 as at 31 December 2009, 2010 and 2011 and 30 June 2012 respectively were held on behalf by certain directors, staff and shareholder of the Project Company with trust arrangement.

13. Investment Properties

	At 31 December			At 30 June
	2009	2010	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period				
Cost	4,001	4,001	4,001	4,001
Accumulated depreciation and impairment	<u>(1,901)</u>	<u>(2,326)</u>	<u>(2,586)</u>	<u>(2,846)</u>
Net carrying amount	<u>2,100</u>	<u>1,675</u>	<u>1,415</u>	<u>1,155</u>
For the year/period				
Opening net carrying amount	2,100	1,675	1,415	1,155
Depreciation charge	<u>(425)</u>	<u>(260)</u>	<u>(260)</u>	<u>(130)</u>
Closing net carrying amount	<u>1,675</u>	<u>1,415</u>	<u>1,155</u>	<u>1,025</u>
At end of the year/period				
Cost	4,001	4,001	4,001	4,001
Accumulated depreciation and impairment	<u>(2,326)</u>	<u>(2,586)</u>	<u>(2,846)</u>	<u>(2,976)</u>
Net carrying amount	<u>1,675</u>	<u>1,415</u>	<u>1,155</u>	<u>1,025</u>

At 31 December 2009, 2010 and 2011 and 30 June 2012, all investment properties represent certain restricted properties situated in the PRC which are not allowed to trade in the open market until, in future, the PRC government resumes the land on which the investment properties are situated and the maximum compensation payable to the Project Company will be RMB2,100,000.

14. Deferred Expenditure

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1 January	23,022	26,754	73,312	75,370
Additions	3,732	46,558	2,058	140
At 31 December/30 June	26,754	73,312	75,370	75,510
Accumulated amortisation				
At 1 January	2,054	3,337	5,980	9,661
Amortisation for the year/period	1,283	2,643	3,681	1,807
At 31 December/30 June	3,337	5,980	9,661	11,468
Net carrying value				
At 31 December/30 June	23,417	67,332	65,709	64,042

15. Deferred Tax Assets

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable tax rates at each of the reporting dates in the tax jurisdiction concerned.

Movements in deferred tax assets during the Relevant Periods are as follows:

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Accelerated tax depreciation:				
At 1 January	3,527	3,127	2,862	2,597
Deferred tax charged to profit or loss				
(note 9)	(400)	(265)	(265)	(132)
At 31 December/30 June	3,127	2,862	2,597	2,465

16. Trade Receivables

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	–	37,000	38,800	8,800

Trade receivables generally have credit terms of 30 to 90 days. No interest is charged to the Project Company’s business-related customers. The Project Company has a credit policy in place, and exposures are monitored and overdue balances are reviewed by senior management on an ongoing basis.

Based on the invoice dates, ageing analysis of trade receivables is as follows:

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within 60 days	–	37,000	–	–
121 to 365 days	–	–	38,800	–
Over 365 days	–	–	–	8,800
	–	37,000	38,800	8,800

The directors of the Project Company consider that the fair values of trade receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

Based on the due date, ageing analysis of trade receivables is as follows:

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	–	37,000	–	–
61 – 90 days	–	–	–	–
91 – 120 days	–	–	–	–
121 – 365 days past due	–	–	38,800	–
Over 365 days past due	–	–	–	8,800
	–	37,000	38,800	8,800

As at 31 December 2011 and 30 June 2012, trade receivables that were past due but not impaired of approximately RMB38,800,000 and RMB8,800,000 respectively (2009 and 2010: Nil) related to a customer with good and reliable credit rating. Management of the Project Company believes that no impairment allowance is necessary in respect of these balances as the balances are still considered to be fully recoverable. The Project Company did not hold any collateral in respect of these balances.

17. Prepayments and Other Receivables

	At 31 December		At 30 June	
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	1,080	4,710	8,935	18,164
Other receivables	531	410	27,330	494
	<u>1,611</u>	<u>5,120</u>	<u>36,265</u>	<u>18,658</u>

Prepayments at each of the reporting dates are mainly the prepaid amounts to the construction companies for building the facilities in the cemetery such as courtyard, lake, tree plantation and land levelling work. Other receivables were due on demand and none of them are past due nor impaired.

The Project Company's management considers that other receivables that were neither past due nor impaired for each of the reporting dates under review are of good credit quality.

All other receivables of the Project Company at the reporting dates are non-interest bearing advances.

	At 31 December		At 30 June	
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables	531	910	27,330	494
Less: written off	–	(500)	–	–
Other receivables, net	<u>531</u>	<u>410</u>	<u>27,330</u>	<u>494</u>

As at 31 December 2010, the directors of the Project Company considered the recoverability on a carrying amount of RMB500,000 receivable from an independent third party is remote and unlikely. Full provision was made to the amount accordingly.

Except for the amount with provision for impairment mentioned above, the directors of the Project Company considered the financial strengths of these third parties, to whom advances were made, are strong because all these balances were due from these third parties who have no default in payments, violation of contracts or delay of interest payment. Therefore, management of the Project Company believes there is no recoverability problem and no further provision of allowance is considered necessary.

The directors of the Project Company consider that the fair values of other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

18. Pledged Bank Deposits

As at 30 June 2012, the Project Company's bank borrowings amounted to approximately RMB78,000,000 (31 December 2009, 2010 and 2011: Nil) (note 23) are secured by the Project Company's bank deposits of approximately RMB30,000,000 (2009, 2010 and 2011: Nil). The fixed interest rate of pledged bank deposits is 3.5% per annum.

The directors of the Project Company consider the fair value of the pledged bank deposits approximate to its carrying amount.

19. Cash and Bank Balances

Cash at banks earned interest at floating rates based on daily bank deposit rates. All cash and bank balances held at each of the reporting dates were deposited in the banks and financial institutions in the PRC and denominated in RMB.

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Project Company is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

20. Development and Formation Costs

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Development and formation costs				
– columbarium niches and tombs	–	–	64,564	115,175

As at 31 December 2011 and 30 June 2012, development and formation costs of approximately RMB39,963,000 and RMB90,950,000 respectively are expected to be recovered more than one year.

21. Trade Payables

The credit terms were granted by the Project Company’s suppliers varying from one to two years for the Relevant Periods. Based on the invoice dates, ageing analysis of trade payables is as follows:

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	1,981	13,118	3,479	4,459
91 – 180 days	1,643	1,551	7,211	3,342
181 – 365 days	5,443	6,318	2,822	3,049
1 – 2 years	3,854	4,515	7,883	12,477
	12,921	25,502	21,395	23,327

As at 31 December 2009, balance with carrying amounts of approximately RMB12,794,000 were due to上海天象石材有限公司(“上海天象”), an indirect shareholder of the Project Company, in relation to trade transactions incurred in and prior to 2009.

The Project Company’s directors considered that the carrying amount of trade payables to be a reasonable approximation of their fair value.

22. Accrued Liabilities, Other Payables, Deposits Received and Receipts in Advance

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Current portion:				
Accrued liabilities	2,019	2,010	2,975	854
Other payables	3,080	8,974	19,366	18,678
Deposits received from customers	1,038	419	533	828
Receipts in advance (note)	–	285	516	533
	6,137	11,688	23,390	20,893
Non-current portion:				
Receipts in advance (note)	–	2,565	4,190	4,087

The carrying amounts of current accrued liabilities, other payables and deposits received are short-term in nature and hence their carrying values are considered a reasonable approximation of fair value.

Note:

The balances represent ten-year management fees received in advance in respect of tombs and niches sold. Management fee receipts in advance are credited to revenue on straight-line method over a period of the contractual periods (which are generally ten years) from the date of the sale of columbarium niche and tombs.

23. Interest-bearing Bank Borrowings

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings repayable within				
one year :				
– secured (note (a))	18,300	–	–	30,000
– secured and guaranteed (note (b))	–	–	3,000	3,000
– guaranteed (note (c))	6,000	15,000	32,000	45,000
	24,300	15,000	35,000	78,000

Notes:

- (a)

The balance as at 31 December 2009 was secured by certain property, plant and equipment of the Project Company’s shareholder, namely浙江富安移民經濟開發有限公司 (“浙江富安”) . The balance as at 30 June 2012 was secured by the Project Company’s pledged bank deposits amounted to approximately RMB30,000,000 (note 18).
- (b)

The balances were guaranteed by certain shareholders of the Project Company, their family members, and also secured by a property held by 浙江富安.
- (c)

The balances were guaranteed by certain shareholders of the Project Company, their family members and an independent third party.

All bank borrowings were due within 12 months, denominated in RMB and bore interest at the following effective interest rates per annum:

	Effective interest rate per annum
At 31 December 2009	5.31%-8.96%
At 31 December 2010	4.80%
At 31 December 2011	6.90%-7.63%
At 30 June 2012	6.90%-8.31%

24. Amounts Due from Directors

The amounts due were unsecured, interest-free and repayable on demand.

	Maximum outstanding balance during the year	
	RMB’000	RMB’000
At 31 December 2009		
– Lu Guofu	7	200
– Shi Jun	9	9
– Chen Jinjuan	6	10
	22	219

25. Amount(s) due from/(to) shareholders/from/(to) ultimate holding company/(to) immediate holding company/(to) a fellow subsidiary/(to) a related company/(to) a director

The amounts due were unsecured, interest-free and repayable on demand.

26. Amounts Due from Related Companies

The amounts due were unsecured, interest-free and repayable on demand.

		Maximum outstanding balance during the year/ period
	RMB'000	RMB'000
At 31 December 2009		
上海天象 (note (a))	109	109
杭州好樂天禮儀服務有限公司 (“好樂天”) (note(b))	68	145
杭州殯儀服務中心 (“杭州殯儀服務”) (note (c))	1,570	1,570
	1,747	
At 31 December 2010		
杭州殯儀服務 (note (c))	1,055	1,055
	1,055	
At 31 December 2011		
杭州殯儀服務 (note (c))	444	934
	444	
At 30 June 2012		
杭州殯儀服務 (note (c))	414	414
	414	

Notes:

- (a) The balance was due from 上海天象 which had indirect equity interests to the Project Company as at 31 December 2009.
- (b) The balance was due to 好樂天, in which common shareholders have significant control of the Project Company for the Relevant Periods.
- (c) The balances were due from 杭州殯儀服務 which is the branch of 好樂天, in which the common shareholders have significant control of the Project Company for the Relevant Periods.

27. Paid-up Capital

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	2,400	5,000	5,000	85,000
Capital contributions	2,600	–	80,000	–
At the end of the year/period	5,000	5,000	85,000	85,000

The Project Company was established in the PRC on 26 April 1999 for an operating period of 20 years. As at 1 January 2009, its registered and paid-up capital was RMB2,400,000. Pursuant to the resolution passed on 30 October 2009, 5 May 2011 and 5 June 2011, its registered capital was increased to RMB5,000,000, RMB6,000,000 and RMB85,000,000 respectively. The increased portion of RMB2,600,000, RMB1,000,000 and RMB79,000,000 was paid up on 2 December 2009, 6 May 2011 and 15 June 2011 respectively.

28. Reserves

Movements of the Project Company’s reserves for the Relevant Periods have been presented in the statements of changes in equity in this report.

In accordance with the relevant laws and regulations of the PRC, the Project Company is required to transfer 10% of its profit after income tax prepared in accordance with the accounting regulation in the PRC to the statutory reserves until the reserve balance reaches 50% of the respective registered capital. Such a statutory reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

Contribution from a shareholder represents the difference between the nominal amount and the fair value of amount due to a shareholder on initial recognition.

29. Commitments

(a) Operating lease commitments

As at each of the reporting dates, total future minimum lease payments under non-cancellable operating leases payable in respect of office premises by the Project Company are as follows:

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	124	167	345	310
In the second to fifth years	6	96	36	59
	130	263	381	369

The Project Company leases a number of properties under operating leases. The leases run for an initial period of 1 to 5 years, with an option to renew the lease and renegotiated the terms at the expiry date or at dates as mutually agreed between the Project Company and respective landlords. None of the leases include contingent rentals.

(b) Capital commitments

The Project Company had the following capital commitments but not provided for as at each of the reporting dates:

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for:				
Proposed acquisition of land use rights	–	–	8,000	8,000
Acquisition of property, plant and equipments	–	560	–	–
Construction to be capitalised as deferred expenditure	250	–	–	–
	250	560	8,000	8,000

30. Related Party Transactions

In addition to the transactions and balances detailed elsewhere in the Financial Information and the 30 June 2011 Corresponding Information, the Project Company has the following transactions with related parties during the Relevant Periods and for the six months ended 30 June 2011:

	Notes	Year ended 31 December			Six months ended	
					30 June	
		2009	2010	2011	2012	2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
Construction expenses						
paid to a shareholder	(a)	–	37,500	–	–	–
Consideration on disposal of buildings to a shareholder	(b)	3,492	–	–	–	–
Consultancy fee paid to a shareholder	(c)	1,943	750	–	–	–
Service fee paid to a shareholder	(d)	3,854	1,000	–	–	–
Purchase from a related company	(e)	9,210	–	–	–	–
Compensation of key management personnel	(f)	639	623	511	216	227
Management fee paid to a fellow subsidiary	(g)	–	10,636	16,364	–	12,879

Notes:

- (a) Certain construction services in respect of deferred expenditures were provided by 浙江富安, a shareholder of the Project Company. The amounts were charged according to the mutually agreed terms between both parties.
- (b) Certain buildings with carrying amount of approximately RMB2,880,000 were disposed of to 浙江富安 during the year ended 31 December 2009. The consideration was based on terms mutually agreed by both parties.
- (c) Consultancy fee paid to 浙江富安 for consulting services of management support and financial risks management during the years ended 31 December 2009 and 2010. The transactions were charged according to the mutually agreed terms between both parties.
- (d) Service fee paid to 浙江富安 for outsourced staff services rendered during the years ended 31 December 2009 and 2010. The transactions were charged according to the mutually agreed terms between both parties.

- (e) During the year ended 31 December 2009, included in purchase with approximately RMB9,210,000 were transacted with 上海天象, an indirect shareholder of the Project Company. The transactions were charged according to the mutually agreed terms between both parties.
- (f) The key management personnel are the directors of the Project Company, details of remuneration paid to the directors are set out in note 11(a) to the Financial Information and the 30 June 2011 Corresponding Information.
- (g) Management services were provided by a fellow subsidiary of the Project Company, 中寧企業管理服務(上海)有限公司 during the years ended 31 December 2010 and 2011. The transactions were charged according to the mutually agreed terms between both parties.
- (h) As at 31 December 2009, 2010 and 2011 and 30 June 2012, certain of the Project Company's bank borrowings of approximately RMB6,000,000, RMB15,000,000, RMB32,000,000 and RMB45,000,000 respectively were guaranteed by certain shareholders of the Project Company, their family members and an independent third party (*note 23*).
- (i) As at 31 December 2011 and 30 June 2012, certain of the Project Company's bank borrowings of approximately RMB3,000,000 and RMB3,000,000 respectively were secured by a property of 浙江富安 and corporate guaranteed by 浙江富安 (*note 23*).
- (j) As at 31 December 2009, certain of the Project Company's bank borrowings of approximately RMB18,300,000 were secured by a property of 浙江富安 (*note 23*).

31. Major Non-cash Transactions

(a) *Development and formation costs*

Increase in development and formation costs included capitalisation of borrowing costs of approximately RMB1,847,000 and RMB2,511,000 for the year ended 31 December 2011 and for the six months ended 30 June 2012 respectively (six months ended 30 June 2011: RMB946,000).

(b) *Prepayments and other receivables*

For the six months ended 30 June 2012, other receivables of approximately RMB25,350,000 has been settled through offset of the same amount due to shareholders.

(c) Amounts due to shareholders/immediate holding company

Increased in amounts due to shareholders included imputed finance costs of approximately RMB528,000 and RMB1,754,000 for the years ended 31 December 2010 and 2011 respectively (Six months ended 30 June 2011: RMB1,754,000).

For the year ended 31 December 2011, amounted to approximately RMB21,787,000 and RMB10,932,000 dividend payable were recorded under amounts due to shareholders and amount due to immediate holding company respectively.

For the six months ended 30 June 2012, amounted to approximately RMB907,000 net dividend payable (after net-off with other receivables as mentioned in note 31 (b)) was recorded under amounts due to shareholders.

(d) Deferred expenditure

For the year ended 31 December 2010, additions in deferred expenditure included capitalisation of borrowing costs of approximately RMB1,233,000. Besides, deferred expenditure of approximately RMB37,500,000 has been paid on behalf by 浙江富安 and the amounts were recorded under amounts due to shareholders accordingly.

32. Financial Risk Management and Fair Value Measurements

The Project Company is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest risk), credit risk and liquidity risk.

The Project Company does not have any written risk management policies and guidelines. However, the directors of the Project Company periodically analyse and formulate measures to manage the Project Company’s exposure to the risk associated with the financial instruments. As the Project Company’s exposure to market risks is kept at a minimum level, the Project Company has not used any derivatives or other instruments for hedging purposes. The Project Company does not hold or issue derivative financial instruments for trading purposes. The most significant financial risks to which the Project Company is exposed are discussed below.

(a) Categories of financial assets and liabilities

The carrying amounts presented in the Project Company’s statements of financial position relate to the following categories of financial assets and financial liabilities:

	At 31 December		At 30 June	
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables:				
– Trade receivables	–	37,000	38,800	8,800
– Other receivables	531	410	27,330	494
– Amounts due from directors	22	–	–	–
– Amounts due from shareholders	486	–	–	–
– Amount due from ultimate holding company	–	–	–	574
– Amounts due from related companies	1,747	1,055	444	414
– Pledged bank deposits	–	–	–	30,000
– Cash and bank balances	15,622	15,300	9,391	8,088
	18,408	53,765	75,965	48,370

	At 31 December			At 30 June
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
At amortised cost:				
– Trade payables	12,921	25,502	21,395	23,327
– Accrued liabilities and other payables	5,099	10,984	22,341	19,532
– Interest-bearing bank borrowings	24,300	15,000	35,000	78,000
– Amount due to a director	–	–	70	70
– Amounts due to shareholders	–	25,298	21,787	20,897
– Amount due to immediate holding company	–	–	10,932	10,932
– Amount due to ultimate holding company	–	6,000	–	–
– Amount due to a fellow subsidiary	–	10,636	8,477	1,819
– Amount due to a related company	–	318	173	246
	<u>42,320</u>	<u>93,738</u>	<u>120,175</u>	<u>154,823</u>

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Project Company has interest-bearing assets (cash at bank) and interest-bearing liabilities (bank borrowings) carried at effective interest rates with reference to the market (notes 19 and 23). The Project Company's income and operating cash flows are substantially independent of changes in market interest rates. The Project Company has not used any financial instrument to hedge potential fluctuations in interest rates. The exposure to interest rates for the Project Company's cash at banks is considered minimal.

At 31 December 2009, 2010, 2011 and 30 June 2012, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would decrease the Project Company's pre-tax profit and decrease its reserves or increase its accumulated loss by approximately RMB32,000, RMB1,000, RMB96,000 and RMB262,000 respectively.

A decrease of 50 basis points in interest rate would have had equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments at the reporting date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

The policies to manage interest rate risk have been followed by the Project Company since prior years and are considered to be effective.

(c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Project Company. The Project Company's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

The carrying amounts of trade and other receivables presented in the statements of financial position are net of impairment losses, if any. The Project Company minimises its exposure to the credit risk by rigorously selecting the counterparties, performing ongoing credit evaluation on the financial conditions of its debtors and tightly monitoring the ageing of the receivables.

Follow-up actions are taken in case of overdue balances on an ongoing basis. In addition, management of the Project Company monitors and reviews the recoverable amount of the receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. It is not the Project Company's policy to request collateral from its customers.

The credit risk of the Project Company's other financial assets, which comprise cash and cash equivalents, is limited because almost all of the Project Company's bank deposits are deposited with commercial banks located in the PRC.

Further quantitative disclosures in respect of the Project Company's exposure to credit risk arising from trade and other receivables are set out in notes 16 and 17 respectively.

(d) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Project Company's operations are in the PRC and majority of the Project Company's revenues, expenses and cash flows are denominated in RMB. Assets and liabilities of the Project Company are mostly denominated in RMB. Any significant exchange rate fluctuations of foreign currencies against RMB will not have material financial impact to the Project Company. Hence, the Project Company's exposure at the reporting dates to risk resulting from changes in foreign currency exchange rates is minimal.

(e) Liquidity risk

Liquidity risk relates to the risk that the Project Company will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Project Company is exposed to liquidity risk in respect of settlement of trade payables, accruals and other payables, bank borrowings and amounts due to a director, shareholders, ultimate holding company, immediate holding company, a fellow subsidiary and a related company and also in respect of its cash flow management. The Project Company's objective is to maintain an appropriate level of liquid assets and committed credit lines of funding to meet its liquidity requirements in the short and longer term.

The Project Company manages its liquidity needs on a consolidated basis by carefully monitoring the cash inflows and outflows due in day to day business. Liquidity needs are monitored in various time bands, on a day to day and week to week basis. Long term liquidity needs for a 180-day and 365-day lookout period are identified monthly.

The Project Company's liquidity is mainly dependent upon the cash received from its trade customers and fund raising activities. The directors of the Project Company are satisfied that the Project Company will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

The liquidity policies have been followed by the Project Company since prior years and are considered to have been effective in managing liquidity risks.

APPENDIX IV

ACCOUNTANTS' REPORT OF THE PROJECT COMPANY

The following tables detail the remaining contractual maturities at the reporting date of the Project Company’s financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Project Company can be required to pay:

	On demand <i>RMB'000</i>	Within 6 months <i>RMB'000</i>	6 to 12 months <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Total undiscounted amount <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2009						
Trade payables	128	3,844	5,441	3,768	13,181	12,921
Accrued liabilities and other payables	5,099	–	–	–	5,099	5,099
Interest-bearing bank borrowings	–	757	24,672	–	25,429	24,300
	<u>5,227</u>	<u>4,601</u>	<u>30,113</u>	<u>3,768</u>	<u>43,709</u>	<u>42,320</u>
At 31 December 2010						
Trade payables	720	4,963	6,195	14,072	25,950	25,502
Accrued liabilities and other payables	10,984	–	–	–	10,984	10,984
Interest-bearing bank borrowings	–	15,039	–	–	15,039	15,000
Amounts due to shareholders	25,298	–	–	–	25,298	25,298
Amount due to ultimate holding company	6,000	–	–	–	6,000	6,000
Amount due to a fellow subsidiary	10,636	–	–	–	10,636	10,636
Amount due to a related company	318	–	–	–	318	318
	<u>53,956</u>	<u>20,002</u>	<u>6,195</u>	<u>14,072</u>	<u>94,225</u>	<u>93,738</u>

APPENDIX IV

ACCOUNTANTS' REPORT OF THE PROJECT COMPANY

	On demand <i>RMB'000</i>	Within 6 months <i>RMB'000</i>	6 to 12 months <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Total undiscounted amount <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2011						
Trade payables	188	7,980	10,357	3,044	21,569	21,395
Accrued liabilities and other payables	22,341	–	–	–	22,341	22,341
Interest-bearing bank borrowings	–	–	36,850	–	36,850	35,000
Amount due to a director	70	–	–	–	70	70
Amounts due to shareholders	21,787	–	–	–	21,787	21,787
Amount due to immediate holding company	10,932	–	–	–	10,932	10,932
Amount due to a fellow subsidiary	8,477	–	–	–	8,477	8,477
Amount due to a related company	173	–	–	–	173	173
	<u>63,968</u>	<u>7,980</u>	<u>47,207</u>	<u>3,044</u>	<u>122,199</u>	<u>120,175</u>
At 30 June 2012						
Trade payables	6,478	8,236	3,286	5,791	23,791	23,327
Accrued liabilities and other payables	19,532	–	–	–	19,532	19,532
Interest-bearing bank borrowings	–	49,032	31,804	–	80,836	78,000
Amount due to a director	70	–	–	–	70	70
Amounts due to shareholders	20,897	–	–	–	20,897	20,897
Amount due to immediate holding company	10,932	–	–	–	10,932	10,932
Amount due to a fellow subsidiary	1,819	–	–	–	1,819	1,819
Amount due to a related company	246	–	–	–	246	246
	<u>59,974</u>	<u>57,268</u>	<u>35,090</u>	<u>5,791</u>	<u>158,123</u>	<u>154,823</u>

(f)
 Fair values

The fair values of the Project Company’s financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturities.

33. Capital Management

The Project Company's capital management objectives are:

- (a) to ensure the Project Company's ability to continue as a going concern; and
- (b) to provide an adequate return to shareholders.

The Project Company actively and regularly reviews its capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Project Company may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing to reduce debts or sell assets to reduce debts. No changes were made in the objectives, policies or processes during the Relevant Periods and for the six months ended 30 June 2011.

The Project Company currently does not adopt any formal dividend policy. Management regards total equity as capital, for capital management purpose.

III. EVENTS AFTER THE REPORTING DATE

No significant event has been noted for the Project Company in respect of any period subsequent to 30 June 2012.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Project Company in respect of any period subsequent to 30 June 2012.

Yours faithfully,

BDO Limited

Certified Public Accountants

Au Yiu Kwan

Practising Certificate Number P05018

Hong Kong

The following are the unaudited pro forma financial information of the Enlarged Group and the text of the accountants' report thereon from the reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of inclusion in this circular.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**1.1 INTRODUCTION**

The following unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group (hereinafter collectively referred to as the "Unaudited Pro Forma Consolidated Financial Information") have been prepared by the directors of the Company in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition on the financial position of the Group as at 31 March 2012 and the results and cash flows of the Group for the year ended 31 March 2012.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared, in accordance with the accounting policies of the Group under Hong Kong Financial Reporting Standards ("HKFRS"), based on the audited consolidated statement of financial position of the Group as at 31 March 2012 extracted from the published annual report of the Group for the year ended 31 March 2012 and the audited consolidated statement of financial position of the Target Group as at 30 June 2012 as extracted from the accountants' report of the Target Group set out in Appendix III to this circular as if the Acquisition had been completed on 31 March 2012.

The unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared, in accordance with the accounting policies of the Group under HKFRS, based on the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 March 2012 extracted from the published annual report of the Group for the year ended 31 March 2012 and the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Target Group for the period from 27 May 2011 (the earliest date of incorporation of the Target Group) to 31 March 2012 as extracted from the accountants' report of the Target Group set out in Appendix III to this circular as if the Acquisition had been completed on 1 April 2011.

The Unaudited Pro Forma Financial Information is based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; and (ii) factually supportable, is summarised in the accompanying notes.

The accompanying Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and is based on certain assumptions, estimates, uncertainties and other currently available financial information. Accordingly, because of its nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position, results and cash flows of the Enlarged Group following the completion of the Acquisition. Further, the Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results of operations and cash flows.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1.2 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 31 March 2012 (Audited) HK\$'000	The Target Group as at 30 June 2012 (Audited) HK\$'000	Pro forma adjustments (Unaudited) HK\$'000	Notes	Pro forma Enlarged Group (Unaudited) HK\$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	10,331	–			10,331
Investment properties	2,163	–			2,163
Intangible assets	392,281	–			392,281
Deposits for potential investments	7,317	–			7,317
Deferred expenditure	78,600	–			78,600
	<u>490,692</u>	<u>–</u>			<u>490,692</u>
Current assets					
Development and formation costs	100,807	–			100,807
Inventories	8,302	–			8,302
Trade receivables	23,192	–			23,192
Prepayments, deposits and other receivables	71,977	5			71,982
Available-for-sale financial assets	2,731	–			2,731
Pledged bank deposits	18,504	–			18,504
Cash and bank balances	52,099	48	(50,000)	3(i)	2,147
	<u>277,612</u>	<u>53</u>			<u>227,665</u>
Current liabilities					
Trade payables	30,412	–			30,412
Other payables, accruals, deposits received and receipts in advance	23,639	34	1,400	6	25,073
Bank borrowings	77,717	–			77,717
Amount due to a director	–	74			74
Amounts due to non-controlling interests	1,119	–			1,119
Taxes payables	29,487	–			29,487
	<u>162,374</u>	<u>108</u>			<u>163,882</u>
Net current assets/(liabilities)	<u>115,238</u>	<u>(55)</u>			<u>63,783</u>
Total assets less current liabilities	<u>605,930</u>	<u>(55)</u>			<u>554,475</u>

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group as at 31 March 2012 (Audited) HK\$'000	The Target Group as at 30 June 2012 (Audited) HK\$'000	Pro forma adjustments (Unaudited) HK\$'000	Notes	Pro forma Enlarged Group (Unaudited) HK\$'000
Non-current liabilities					
Receipts in advance	5,056	–			5,056
Promissory Note	–	–	41,000	3(ii)	41,000
Deferred tax liabilities	95,940	–			95,940
	<u>100,996</u>	<u>–</u>			<u>141,996</u>
Net assets/(liabilities)	<u><u>504,934</u></u>	<u><u>(55)</u></u>			<u><u>412,479</u></u>
EQUITY					
Equity attributable to owners of the Company					
Share capital	272,062	–			272,062
Reserves	62,066	(55)	72,759	5	134,770
	<u>334,128</u>	<u>(55)</u>			<u>406,832</u>
Non-controlling interests	170,806	–	(165,159)	4	5,647
Total equity	<u><u>504,934</u></u>	<u><u>(55)</u></u>			<u><u>412,479</u></u>

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL

INFORMATION OF THE ENLARGED GROUP

1.3

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

	The Group for the year ended 31 March 2012 (Audited) HK\$'000	The Target Group for the period from 27 May 2011 to 31 March 2012 (Audited) HK\$'000	Pro forma adjustments (Unaudited) HK\$'000	Notes	Pro forma Enlarged Group (Unaudited) HK\$'000
Revenue	64,704	–			64,704
Cost of sales	(16,802)	–			(16,802)
Gross profit	47,902	–			47,902
Other income	1,406	–			1,406
Selling expenses	(11,571)	–			(11,571)
Administrative expenses	(65,260)	(31)			(65,291)
Other operating expenses	(1,235)	–			(1,235)
Impairment loss on other receivables	(80,000)	–			(80,000)
Operating loss	(108,758)	(31)			(108,789)
Finance costs	(12,736)	–	(3,690)	7	(16,426)
Loss before income tax	(121,494)	(31)			(125,215)
Income tax credit	605	–			605
Loss for the year/period	(120,889)	(31)			(124,610)
Loss for the year/period attributable to:					
Owners of the Company	(111,245)	(31)	(3,690) (9,325)	7 8	(124,291)
Non-controlling interests	(9,644)	–	9,325	8	(319)
Loss for the year/period	(120,889)	(31)			(124,610)

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1.4 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

	The Group for the year ended 31 March 2012 (Audited) HK\$'000	The Target Group for the period from 27 May 2011 to 31 March 2012 (Audited) HK\$'000	Pro forma adjustments (Unaudited) HK\$'000	Notes	Pro forma Enlarged Group (Unaudited) HK\$'000
Cash flows from operating activities					
Loss before income tax	(121,494)	(31)	(3,690)	7	(125,215)
Adjustments for:					
Interest income	(173)	–			(173)
Interest expenses	12,736	–	3,690	7	16,426
Depreciation on property, plant and equipment	3,197	–			3,197
Depreciation on investment properties	316	–			316
Impairment loss on other receivables	80,000	–			80,000
Equity-settled share-based payments	7,311	–			7,311
Loss on disposals of property, plant and equipment	272	–			272
Write off of property, plant and equipment	271	–			271
Write off of deferred expenditure	126	–			126
Amortisation of deferred expenditure	4,492	–			4,492
Amortisation of intangible assets	2,117	–			2,117
Fair value gains on financial assets at fair value through profit or loss	1,235	–			1,235
Operating loss before working capital changes	(9,594)	(31)			(9,625)
Increase in development and formation costs	(91,117)	–			(91,117)
Increase in inventories	(2,339)	–			(2,339)
Decrease in trade receivables	74,016	–			74,016
Proceeds from financial assets at fair value through profit or loss	1,796	–			1,796
Increase in prepayments, deposits and other receivables	(24,192)	–			(24,192)
Decrease in amount due from a related company	420	–			420
Decrease in trade payables	(3,383)	–			(3,383)
Increase in other payables, accruals and deposits received	1,348	6	1,400	6	2,754
Cash used in operations	(53,045)	(25)			(51,670)
Interest paid	(14,424)	–			(14,424)
Net cash used in operating activities	(67,469)	(25)			(66,094)

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group for the year ended 31 March 2012 (Audited) HK\$'000	The Target Group for the period from 27 May 2011 to 31 March 2012 (Audited) HK\$'000	Pro forma adjustments (Unaudited) HK\$'000	Notes	Pro forma Enlarged Group (Unaudited) HK\$'000
Cash flows from investing activities					
Deposits paid for potential investment	(7,317)	–			(7,317)
Acquisition of property, plant and equipment	(2,293)	–			(2,293)
Proceeds from disposals of property, plant and equipment	113	–			113
Purchases of deferred expenditure	(1,097)	–			(1,097)
Increase in pledged bank deposits	(18,504)	–			(18,504)
Interest received	173	–			173
Net cash used in investing activities	(28,925)	–			(28,925)
Cash flows from financing activities					
Net cash outflow from acquisition of 47.38% in the Project Company	–	–	(50,000)	3(i)	(50,000)
Transaction costs on the Acquisition	–	–	(1,400)	6	(1,400)
Proceeds from bank borrowings	77,717	–			77,717
Repayments of bank borrowings	(48,026)	–			(48,026)
Proceeds from issuance of shares	112,200	–			112,200
Share issue expenses	(2,494)	–			(2,494)
Repurchase of shares	(3,286)	–			(3,286)
Decrease in amounts due to non-controlling interests	(76,717)	–			(76,717)
Advances from shareholder	–	10,074			10,074
Net cash generated from financing activities	59,394	10,074			18,068
Net (decrease)/increase in cash and cash equivalents	(37,000)	10,049			(76,951)
Cash and cash equivalents at beginning of year/period	88,669	–			88,669
Effect of foreign exchange rate changes, net	430	–			430
Cash and cash equivalents at end of the year/period	52,099	10,049			12,148
Analysis of cash and cash equivalents					
Cash and bank balances	52,099	10,049			12,148

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP

1.5NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
ENLARGED GROUP

1. On 18 September 2012, the sale and purchase agreement (the “Agreement”) was entered into between the Company, Sino Grandeur Limited (the “Purchaser”, a wholly-owned subsidiary of the Company) as purchaser, Master Point Overseas Limited (the “Vendor”) as vendor and Mr. Shi Hua (the ultimate controlling shareholder of the Vendor) as guarantor. Pursuant to the Agreement, the Purchaser conditionally agreed to acquire the entire issued share capital of the Target Company from the Vendor at a consideration of HK\$430,000,000, which will be satisfied partly by cash of HK\$50,000,000 and partly by the Company’s issue of the Promissory Note of HK\$50,000,000 and the Convertible Notes of HK\$330,000,000 to the Vendor (the “Acquisition”).

In July 2012, the Vendor, through the Target Company and its subsidiary (the “Target Group”), acquired 47.38% equity interests in the Project Company from Mr. Shi Hua as part of a corporate restructuring of the Target Group. As at the date of this circular, the Group had owned 51% equity interests in the Project Company by an acquisition completed in 2010, and since then, the Project Company had been controlled by and considered to be a subsidiary of the Group. The Group has already consolidated such 51% equity interests in the Project Company to its consolidated financial statements for the year ended 31 March 2012. Upon the completion of the Acquisition (the “Completion”), effective equity interest in the Project Company owned by the Group will be increased to 98.38%.

2. The consideration for the Acquisition (the “Consideration”) shall be satisfied in the following manners:

	Notes	HK\$’000
Refundable deposit paid upon execution of the Agreement		
Cash		40,000
Upon completion of the Acquisition		
Cash		10,000
Issue of Promissory Note (“PN”)	(i)	50,000
Issue of Convertible Notes (“CN”)	(ii)	330,000
Consideration		430,000

Notes:

- (i) PN with a principal amount of HK\$50,000,000 will have a maturity of 36 months from the date of its issue of the PN and will bear simple interest at a rate of 2% per annum commencing from the date of issue and up to the date of repayment. PN will be issued upon Completion.
 - (ii) CN with a principal amount of HK\$330,000,000 is unsecured, non-interest bearing, and will mature on the 5th anniversary of the date of issue of the CN (the “Maturity Date”). The conversion price, subject to the anti-dilution usual adjustments, is HK\$0.10 per conversion share. Any CN which remains outstanding on the Maturity Date shall be converted automatically into the conversion shares unless such conversion will result in (1) a holder of the CN and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 29% or more of the entire issued shares of the Company or such percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”) as being the level for triggering a mandatory general offer, whichever is lower, or (2) the Company will be in breach of the minimum public float requirement under the Listing Rules. In such events, the maturity date of the CN will be extended for further 5 years. Any CN which remains outstanding on the extended maturity date shall be converted automatically into the conversion shares. All outstanding CN which are not converted thereafter will be cancelled by the Company and fully waived without any cost or converted into the debt of the Company. Holders of the CN will have no right to redeem, and the Company has no obligation to repay the outstanding amount.
3. Upon Completion, the Target Company and its subsidiary are continued to be considered by the directors of the Company as the Company’s subsidiaries as the Target Group will be controlled by the Group after Completion. The consolidated statement of financial position of the Target Group will be consolidated into those of the Group from the date on which control is transferred to the Group, which is assumed to be the date of Completion.

Since the Target Group has no business operation except investment holding since its incorporation and, immediately before the Acquisition, it held 47.38% equity interests in the Project Company which is principally engaged in the business of developing and operating cemetery with no other associated business. The directors of the Company are of opinion that the Acquisition does not constitute a business combination for accounting purposes and is in fact a purchase of net assets in nature.

The fair value of the investment cost at completion of the Acquisition which is to be satisfied in the following manners:

	<i>Notes</i>	<i>HK\$'000</i>
Cash consideration	<i>(i)</i>	50,000
PN	<i>(ii)</i>	41,000
CN	<i>(iii)</i>	140,000
Fair value of the Consideration		231,000

Notes:

- (i) The cash considerations of HK\$40,000,000 and HK\$10,000,000 were paid and will be paid to the Vendor upon the execution of the Agreement and the Completion respectively.
- (ii) The fair value of the PN is calculated based on the principal amount and simple interests of the PN and discounted at the effective interest rate of 9% per annum for the period before its maturity, as if the PN had been issued on 31 March 2012. The valuation of the PN as at 31 March 2012 was carried out by LCH (Asia-Pacific) Surveyors Limited, a firm of independent professional qualified valuers, using discounted cash flow approach by applying an appropriate discount rate on the estimated future cash outflows on repayment of the PN. The discount rate is derived from market risk-free rate of 0.33% and risk premium of 8.63% specific to the Company with reference to market sources. The fair value of the PN is recorded as financial liabilities stated at amortised costs in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and will have to be reassessed as at the date of Completion.
- (iii) The CN is accounted for as an equity instrument in accordance with HKAS 32 *Financial Instruments: Presentation* on the ground that the entire number of the CN must be converted into Conversion Shares on or before the Maturity Date or the extended maturity date of this CN and the tentative anti-dilution adjustment clauses in the CN are assumed not to breach the fixed-for-fixed rule in HKAS 32. The fair value of the CN as at 31 March 2012 was carried out by LCH (Asia-Pacific) Surveyors Limited, a firm of independent professional qualified valuers. The CN was priced as prepaid forward, an arrangement in which one can pay for the stock today and receive the stock at an agreed-upon date. Generally, the price of a prepaid forward is equal to the spot asset price. In valuing the CN, adjustment has been made for the dilution effect of the issuance of the CN. On Completion, the classification of the CN as equity instruments and fair value of the CN may be different based on conditions and final clauses along with the instrument issued as at the date of Completion.

4. As at 31 March 2012, the Group had completed the acquisition of 51% equity interest in the Project Company. Details of the previous acquisition have been set out in the Company’s circular dated 21 October 2010. The 49% equity interests in the Project Company had been presented as non-controlling interests (the “existing NCI”) in the consolidated statement of financial position of the Group as at 31 March 2012. Among such existing NCI, 47.38% equity interests in the Project Company will be further acquired by the Group upon Completion. The adjustments are required, for reflecting the effect on the consolidated statement of financial position of the Enlarged Group in relation to the Acquisition, to eliminate the net fair value of the Consideration paid for acquiring the 47.38% equity interests in the Project Company against the carrying amount of the existing NCI of the Project Company in the Group, as if the Acquisition was completed on 31 March 2012.

An analysis of the fair value of net assets acquired and the carrying amount of the existing NCI of the Group are as follows:

	HK\$’000
Net liabilities of the Target Group as at 30 June 2012	(55)
Net fair value of the Consideration paid for acquiring 47.38% equity interests in the Project Company	<u>231,055</u>
Fair value of Consideration (note 3)	<u><u>231,000</u></u>
Carrying amount of 47.38% equity interests in the Project Company as at 31 March 2012	165,159
Carrying amount of remaining NCI upon Completion (1.62% equity interests in the Project Company)	<u>5,647</u>
Carrying amount of existing NCI (49% equity interests in the Project Company) as at 31 March 2012	<u><u>170,806</u></u>

The Acquisition constitutes a change in the Group’s ownership interest in the Project Company that does not result in a loss of control. According to HKAS 27 (Revised) *Consolidated and Separate Financial Statements*, the Acquisition is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid shall be recognised directly in equity and attributed to the owners of the Group. As a result, the difference between the carrying amount and net fair value of the Consideration paid for acquiring the 47.38% equity interests in the Project Company of approximately HK\$65,896,000 (HK\$231,055,000 – HK\$165,159,000) is recognised directly in equity. On the other hand, the carrying amount of 47.38% equity interests in the Project Company of approximately HK\$165,159,000 is eliminated against the existing NCI of the Group as at 31 March 2012.

5. The adjustments are to reflect the effect on reserves from the following transactions arising from the Acquisition:

	HK\$'000
Issuance of CN (note 3(iii))	140,000
Elimination of the pre-acquisition reserve of the Target Group	55
Arising from transaction with non-controlling equity holder of a subsidiary (note 4)	(65,896)
Transaction costs on the Acquisition (note 6)	(1,400)
	<u>72,759</u>

6. The adjustment represents the transaction costs directly in connection with the Acquisition which are assumed to be approximately HK\$1,400,000, with reference to the estimated professional fees and other direct costs in relation to the Acquisition. The directors of the Company consider the estimation of the transaction costs to be fair and reasonable. Since the Acquisition is accounted for as an equity transaction as mentioned in note 4 above, these transaction costs are charged to equity and for the purpose of the preparation of the Unaudited Pro Forma Financial Information, these direct costs are assumed to be outstanding and are included in “Other payables and accruals”.

7. The adjustment reflects the imputed interest expenses of the PN, assuming the effective interest rate of 9% per annum and fair value of the PN of approximately HK\$41,000,000 as if the Acquisition was completed on 1 April 2011. These interest expenses shall have continuing effect on the financial statements of the Enlarged Group in subsequent years. Actual amount of the imputed interest will vary with the effective interest rate of the PN to be reassessed upon Completion.
8. The adjustment represents the reallocation of 47.38% of the results of the Project Company from the non-controlling interests to the Group in the unaudited pro forma consolidated statement of comprehensive income, as if the Completion had taken place on 1 April 2011.
9. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2012 and of the Target Group entered into subsequent to 30 June 2012.

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of an accountants' report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the Unaudited Pro Forma Information of the Enlarged Group:



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111 Connaught Road Central
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香港干諾道中111號
永安中心25樓

28 November 2012

The Directors
China Boon Holdings Limited
Room 2118, Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

Dear Sirs,

CHINA BOON HOLDINGS LIMITED

We report on the unaudited pro forma financial information (the “Unaudited Pro Forma Financial Information”) of China Boon Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which has been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the proposed acquisition (the “Acquisition”) of the entire issued share capital of Jia Yuan Trading Limited (the “Target Company”), which through its wholly-owned subsidiary holds 47.38% equity interest in 浙江安賢陵園有限責任公司 (Zhejiang Anxian Yuan Company Limited, the “Project Company”), by a wholly-owned subsidiary of the Company, might have affected the financial information presented, for inclusion in Appendix V of the Company’s circular dated 28 November 2012 (the “Circular”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed “Unaudited Pro Forma Financial Information of the Enlarged Group” on page 182 to 194 in Appendix V to the Circular.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND
REPORTING ACCOUNTANTS**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and 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 (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work 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 with the directors of the Company. 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 has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

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 the HKICPA, and accordingly, we did not express any such assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not give any assurance or 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 31 March 2012 or any future date, or
- the results and cash flows of the Enlarged Group for the year ended 31 March 2012 or any future periods.

OPINION

In our opinion:

- a. the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

BDO Limited



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors LimitedPROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL ASSETS VALUER

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards 2011 (the “IVS”) published by the International Valuation Standards Council. The standards entitles the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for readers’ identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitution to this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusion.

17th Floor
Champion Building
Nos. 287-291 Des Voeux Road Central
Hong Kong

28 November 2012

The Board of Directors
China Boon Holdings Limited
Room 2118
Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of China Boon Holdings Limited (hereinafter referred to as “China Boon” or the “Company”) to us, we were retained to analyse and prepare an agreed-upon procedures evaluation of a project comprising of cemetery business (hereinafter referred to as the “Project” and to be detailed later in this report) as at 30 June 2012 (hereinafter referred to as the “Relevant Date”) for the Company’s internal management reference. The Project is located in Hangzhou, Zhejiang Province, the People’s Republic of China (hereinafter referred to as the “PRC” or “China”).

We understand that the management of the Company will use our work product as part of its business due diligence, and we have not been engaged to make specific sale or purchase recommendations, or to give our opinion of value for the Company's financing arrangement. We further understand that the management of the Company will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision with regard to the Project. Our work is designed solely to give the management of China Boon a reference in forming part of its internal due diligence, and our work should not be the only factor referenced by the management of the Company.

OUR INSTRUCTION TO THIS ENGAGEMENT

At the instruction of the management of the Company, we were retained to analyse and prepare an agreed-upon procedures project evaluation report to evaluate the financial net present value of the Project. Our work is based on a set of documents including historical operation record of 浙江安賢陵園有限責任公司 (translated as Zhejiang Anxian Yuan Company Limited and hereinafter referred to as the "Project Company"), as well as a Business Plan (hereinafter referred to as the "Business Plan") provided by the management of the Company.

THE PROJECT

According to the management of the Company, the location of the Project is situated at 中國浙江省杭州市余杭區崇賢鎮水洪廟村 (translated as Shuihongmiao Village, Chongxian Town, Yuhang District, Hangzhou City, Zhejiang Province, the PRC). According to the Business Plan, the Project comprises of sales of over 200,000 burial sites in the Project Land (to be defined later in this report). Four major types of burial sites including standard burial sites, high-end burial sites, artistic burial sites and family-based burial sites, will be provided in the Project. The Project also comprises of future operation and management of the burial sites.

According to our discussion with the management of the Project Company and the Company, we were given to understand that the burial sites of the Project will be sold through the means of retail sales from the retail outlets operated by the Project Company situated in various locations of Hangzhou. According to the management of the Company, the main income stream of the Project is from the sales of burial sites, mausoleum and its relevant management fees.

The Project Company

According to a 企業法人營業執照 Enterprise Legal Person Business License 3300000000011783 (1/1) dated 13 July 2012, the registered address of the Project Company is 杭州市余杭區崇賢鎮水洪廟村 (translated as Shuihongmiao Village, Chongxian Town, Yuhang District, Hangzhou City, Zhejiang Province, the PRC). The Project Company was established on 26 April 1999 with a valid operation period from 26 April 1999 to 25 April 2019. The business scope of the Project Company is “公墓經營及管理、墓葬、骨灰安葬及喪葬服務、喪葬用品的銷售” (translated as “cemetery operations and management, burial, ashes burial and funeral services, sales of funeral products”).

We are given to understand that the Project Company has obtained a 公墓服務證 (translated as Burial Service Certificate) on 7 April 2000 and issued by 浙江省民政廳 (translated as Zhejiang Civil Affairs Bureau), which allows the Project Company to operate funeral and cemetery services. We are further given to understand that the Project Company commenced its business in year 2000 and approximately 12,400 burial sites and 26,000 columbarium niches had been sold since then.

The Project Land

The Project Land is located at 中華人民共和國浙江省杭州市余杭區崇賢鎮水洪廟村 (translated as Shuihongmiao Village, Chongxian Town, Yuhang District, Hangzhou City, Zhejiang Province, the PRC) with a total site area of approximately 647,715.1 square meters (sq.m.). Out of this total site area, approximately 142,503 sq.m. had been developed for the cemetery which including burial sites, green zone and accessories. The Project Land is administratively allocated in nature without a specified land use term and is designated for cemetery operation. According to the State-owned Land Use Rights Certificate known as Hang Yu Guo Yong (2003) Zi Di 8-834 Hao (杭余國用(2003)字第8-834號) issued by the Land and Resources Bureau of Hangzhou City on 5 June 2003, the legally interested party in the Project Land having a site area of approximately 647,715.1 sq.m is the Project Company for cemetery purpose.

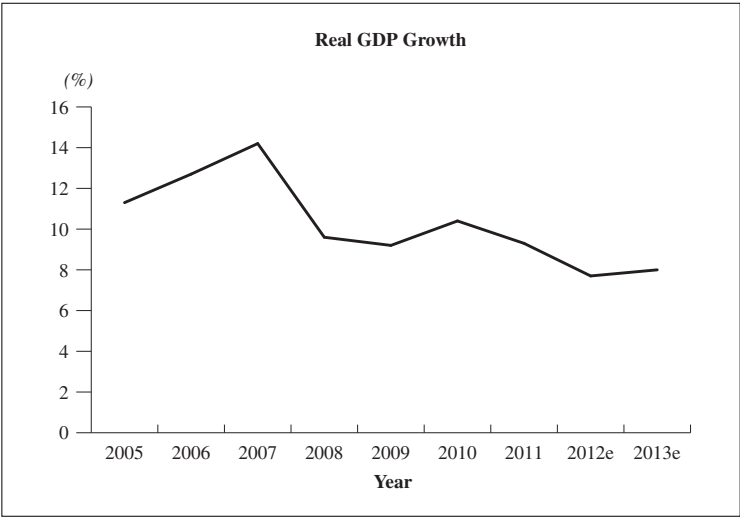
The major building on the Project Land is a 2-storey building having a total gross floor area of approximately 2,121.63 sq. m. and was completed in about 2003. Pursuant to a Building Ownership Certificate known as Yu Fang Quan Zheng Chong Zi Di 0000961 Hao (余房權證崇字第0000961號) issued by Housing Management Bureau of Hangzhou dated 30 April 2006, the legally interested party in the building having a gross floor area of 2,121.63 sq. m. is the Project Company for non-domestic purpose. There is also a multi-storey structure for housing totally 63,000 columbarium niches and was completed in about 2012 erected on the Project Land without valid title certificate.

OVERVIEW (SEE NOTE i)

The Economic Outlook of China

The economy of the PRC is the second largest in the world when measured by nominal GDP (Gross Domestic Product, see Note ii). From 1980 to 2006, the PRC’s real GDP grew by an average rate of 10% annually, and was approximately 9.3% in 2011. The PRC joined WTO in 2001, doubling the manufacturing output and recorded a massive trade surplus. At the beginning of 2010, China replaced Germany as the world largest exporter.

With a strong growth at a compound annual growth rate (CAGR) of approximately 11% from 2005 to 2011, and the PRC’s economic growth is expected to reach 7.7% in 2012. The following figures indicated China’s real GDP from 2004 to 2013:

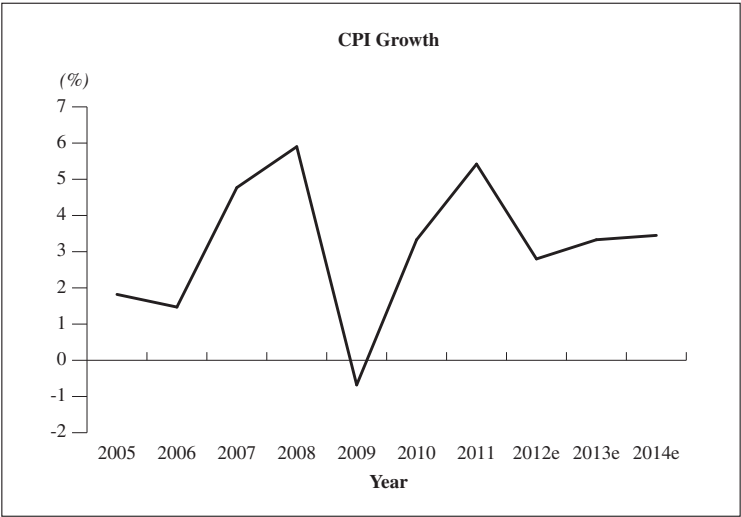


Source: Bloomberg

Notes:

- i. The information provided in this section relating to the related industry and market is derived in part or extracted or referred to from various official and unofficial sources. The official sources include various governmental websites. The unofficial sources include information provided by the management of the Company, various websites, newspapers and journals from various industry practitioners or analysts. We need to state that such official and unofficial information have not been prepared or independently verified by us, and may not be consistent with other information complied within or outside China. None of our staff involved in preparing this report make any representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied upon. The readers should conduct his/her due diligence with regard to the correctness and accuracy of such information for his/her own use.
- ii. Gross domestic product, GDP, is defined as the total value of all goods and services produced within that territory during a given year, and the GDP can be stated as real or nominal term. Nominal GDP measures the value of output during a given year using the prices prevailing during that year. Over time, the general level of prices tends to rise due to inflation (but may also fall, due to deflation), leading to an increase (or decrease) in nominal GDP even if the volume of goods and services produced is unchanged. Real GDP measures the value of output in two or more different years by valuing the goods and services adjusted for inflation.

Since the Chinese government provides massive protection and encouragement such as economic stimulus package to private sectors, China remains the position of the fastest growing economy in the world. According to Bloomberg, during 2005 to 2011, the consumer prices index (“CPI”) was at an average of approximate 3%, and recorded -0.68% in 2009 due to financial tsunami.

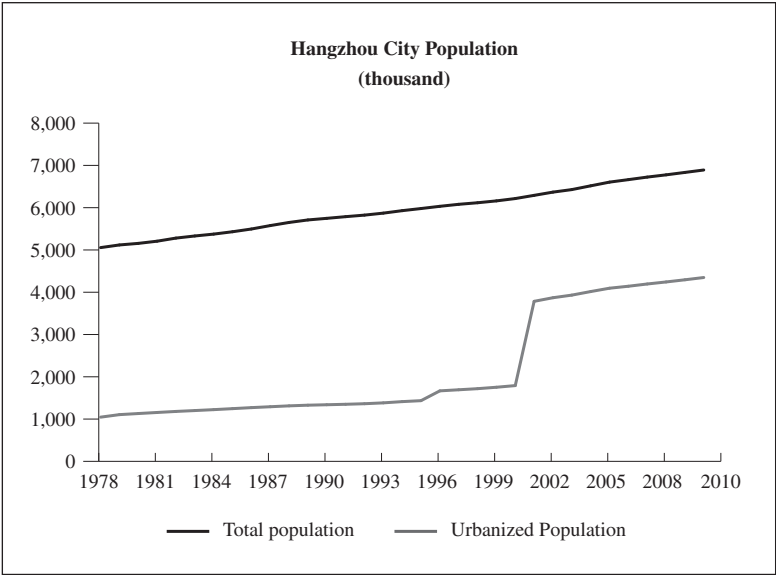


Source: Bloomberg

These figures show that the economic growth becomes more broadly based by rising of domestic consumption. The major force of economic growth is by the rapid urbanisation and massive investments in construction projects mainly in Beijing and Shanghai as well as some inland cities such as Xian and Wuhan, etc. China has replaced Germany as the world’s third biggest economy since 2007, and has also replaced Japan as the second-largest economy in 2010.

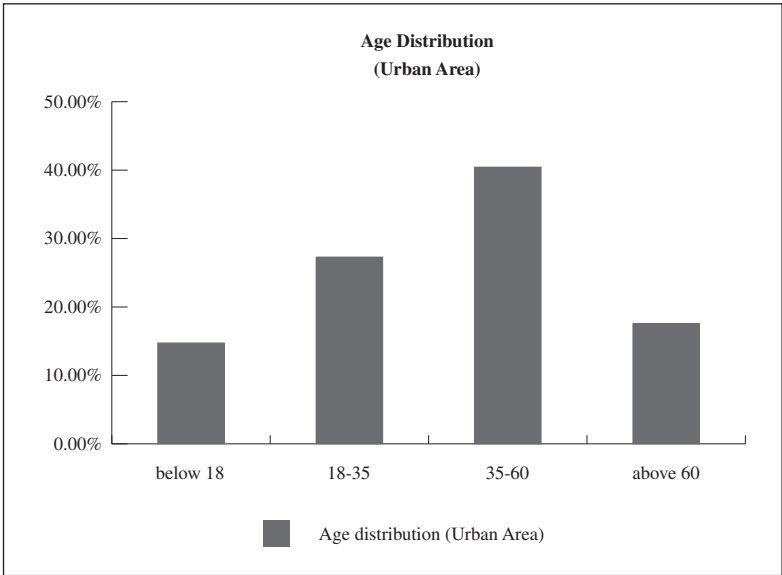
The Population Overview of Hangzhou City

The total population in Hangzhou has been increased to approximately 6.89 million in 2010 from 5.06 million in 1978, with a CAGR of approximately 0.97%, whereas the population in the urban area has been increased to approximately 4.35 million in 2010 from 1.05 million in 1978, with a CAGR of approximately 4.56%. The following figures indicated the population in Hangzhou from 1978 to 2010.



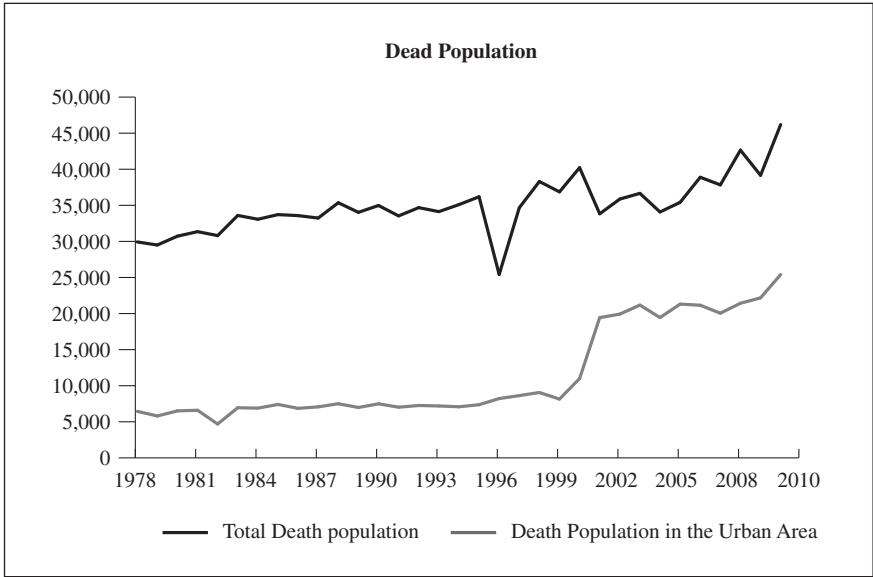
Source: Hangzhou Statistic Year Book 2011

In 2010, over 50% of the urbanised population in Hangzhou are aged 35 or above, and over 17% are aged 60 or above, the following figures indicated age distribution in Hangzhou in 2010.



Source: Hangzhou Statistic Year Book 2011

In addition, according to the Hangzhou Statistic Year Book 2011, the total death population in Hangzhou has also been increased to approximately 46,000 in 2010 from 30,000 in 1978, whereas the death population in the urban area has been increased to approximately 25,000 in 2010 from 6,000 in 1978. The following figures indicated the death population in Hangzhou in 1978 to 2010.



Source: Hangzhou Statistic Year Book 2011

ESTABLISHMENT OF TITLES

The management of the Company provided us the necessary documents to support that the legally interested parties in the Project have free and uninterrupted rights to directly or indirectly assign or to transfer the Project (a part of or the whole of) free of all encumbrances and any premiums/administrative costs payable have already been paid in full. However, our procedures to value as agreed with the management of the Company did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested parties obtained the Project from the relevant authorities. We agreed with the management of the Company that this should be the responsibility of the legal advisor to the management of the Company. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the title to the Project.

We have been provided with copies of the title documents and legal opinions dated 19 November 2012 (the “Legal Opinions”) issued by 廣信律師事務所 (Guangxin Lawyers), a lawyer qualified to practice in China. According to the Legal Opinions, the Project Company has obtained a full legal and beneficial title free from all encumbrances in respect of the Project, and that, the Project Company has obtained a Burial Service Certificate free from all encumbrances.

In our evaluation, we have assumed that the legally interested parties in the Project (the Project Company and its stakeholders in this case) have obtained all the approval and/or endorsement from the relevant authorities for operation, and that there would be no legal impediment (especially from the regulators) for the legally interested parties to continue the ownership of the Project. Should this not be the case, it will affect our conclusion in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

PROCEDURES TO EVALUATE

In performing our work, we have adopted the following procedures which were agreed with the management of the Company before the engagement. They were:

- To read and based on the content of the supplied information, such as the Business Plan, market information, financial information, and its related materials such as explanatory statements and relevant correspondence and recent updates from the appointed personnel of the Company, to arrive at our conclusion. In the course of our evaluation, we will assume that the information provided in the materials is correct and we will only verify the information when and where possible. However, we will not ascertain the correctness of the information contained in the materials like an auditor in giving an audit opinion.
- To hold discussions with relevant appointed personnel of the Company in order to have a better understanding of the Project.
- To conduct a limited scope inspection to the Project Land. The purpose of the inspection is to have a better understanding of the nature of the Project; rather, to prepare an error free asset schedule or to form a detailed conditional survey to the Project Land.
- To conduct appropriate research in order to obtain sufficient information to arrive at our conclusion. The extent of research and consultation is at our discretion.
- To evaluate the financial net present value of the Project using the appropriate method(s).
- To document our findings and conclusion in our evaluation report.

THE BASIS OF EVALUATION AND ASSUMPTIONS

The Project is evaluated on the basis of continued use and as part of a going concern business of a business enterprise (*see Note*), in this case, the Project Company. The continued use premise assumes that the Project will be operated in accordance with the Business Plan provided to us.

Our evaluation has been made on the assumption that, as at the Relevant Date,

1. the legally interested parties in the Project have free and uninterrupted rights to assign the interests of the Project (a part of or the whole of) for the whole of the unexpired terms as granted and any premiums/administrative costs payable have already been fully paid;
2. the Project Company successfully follow the Business Plan and obtained the expected result within the scheduled time frame;
3. the operations in the Project match the quality and quantity expected in the Business Plan;
4. the relevant operating licence and business registration documents are able to be renewed after their expiration from time to time, in order to achieve the expected result;
5. all required licences, certificates, consents, or other legislative or administrative authority from any local, provincial, national government, private entity or organisation has been or can readily be obtained before completing the acquisition and be renewed or replaced on which the evaluation contained in our report are based;
6. the local, provincial, or national government has no material change in price regulation on burial sites currently or in the future;
7. other than the corporate tax, there is no special taxation to the Project owner or operator;
8. the Project Company is able to sell the products under their marketing strategies, without legal impediment, in particular to sell burial units to both local and overseas customers;

Note: A business enterprise is defined as a commercial, industrial, service, or investment entity, or a combination thereof, pursuing an economic activity.

9. the Project Company successfully raise fund to finance and to develop the Project as planned, and is able to sell the predicted burial sites to its clientele at market price as projected;
10. the Project successfully yields the economic benefits as projected in the Business Plan;
11. the prospective earnings would provide a reasonable return to the Project Company and that the Project Company has adequate working capital to implement the operation from time to time;
12. the legally interested parties in the Project have adopted reasonable and necessary security measures and have considered several contingency plans against any disruption (such as change of government policy, labour dispute and other types of unexpected accident) to the operation; and
13. the Project, as part of a going concern business of the Project Company, can be freely disposed and transferred free of all encumbrances for its existing or approved uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should these not be the case, it will have adverse impact to the reported findings and conclusion herein.

FACTORS CONSIDERED IN THE EVALUATION

Unless otherwise stated, the evaluation of the Project has taken account of a number of pertinent factors affecting the Project and its ability, if successful, to generate future investment returns as part of a going concern business of the Project Company. The factors considered in the evaluation included, but were not limited to, the following:

- the nature and the characteristics of the Project, including the historical background and the ground work for the Project;
- the use of the Project as part of a going concern business of the Project Company;
- the cost and financial information as contained in the Business Plan;
- the projected future returns mentioned in the Business Plan and based on the assumptions made by the management of the Company;

- the nature of the Project such as the remaining life and its characteristics;
- the interest and general characteristics of the Project Land;
- the Project Company is able to obtain all corresponding licences as part of a going concern business;
- the quality of the proposed facilities;
- the Project Company is able to raise fund to the construction of a cemetery and its subsequent operations;
- the capability and determination of the Project Company to follow the planned development schedule in the Business Plan;
- the capability and determination of the Project Company to maintain its proposed clientele;
- the capability and determination of the Project Company to follow the government and industry management quality standards and to review/up-lift its standards to catch the industry need from time to time;
- the capability and determination of the legally interested parties in the Project to protect its operations against any disruption of the normal operation in the Project;
- the capability and determination of the Project Company to maintain a cost effective and stable supply chain of the materials to produce its products;
- the capability and determination of the Project Company to maintain an experienced management team as part of a going concern business;
- the economic and industry data affecting the Project and the cemetery business in the PRC; and
- the market-derived investment returns of similar business.

FINANCIAL EVALUATION

Generally speaking, there are several conventional capital investment evaluation techniques, namely the Payback Period, the Rate of Return Method and the Discounted Cash Flows Method. The use of the Payback Period and the Rate of Return Method or the like is designed to serve the purpose of comparing between two or more capital investment projects simultaneously, and to help the investor(s) to examine a sound investment decision between the analysed projects by comparing the period to recover cost of investments or rate of return on capital employed. While the Discounted Cash Flows Method is designed to serve the purpose of evaluating the total sum of money to be received during the useful life of a project by investing certain amount of capital after considered the time value of money (*see Note*).

Payback Period

Payback measures the number of years it is expected to take to recover the cost of the original investment. It is calculated by estimating the annual cash flows from the commencement of a project to the end of its useful life. Initially the outflow will be negative, but, within a year or two from the start of most projects, positive cash flows will occur. This is a simple method and usually used as a first screening method (quoted from Investment Appraisal by G. Mott for the readers’ easy reference).

However, we have reservation to use this simple method for it ignores any cash received after the payback period which cash flows after the payback period are usually much larger than before. And, it makes no attempt to relate the cash earned on the investment to the amount actually invested. In other words, it failed to measure the total profitability over the whole life of the investment. Some analysts commented this method encouraging a short term view and discriminate against long term projects and growth projects, like this Project. This technique is only good to making comparison between two capital investment projects and to help to examine a sound investment decision between the two projects and, appropriate for entity where short term cash flows is more important than long term cash flows.

Note: The time value of money is based on the premise that one will prefer to receive a certain amount of money today than the same amount in the future, all else equal.

Return on Capital Employed

This method, also known as the accounting rate of return, is calculated by estimating average annual pre-tax profit as a percentage of the average capital employment i.e. the original investment. Analysts considered this method is good to measure a project if the entity is concerned with profits rather than liquidity over a period of time. However, like the previous method, it ignores the time value of money and takes no account of the timing of the profits for it take averaging over a period of time (quoted from Investment Appraisal of The CIMA for the readers’ easy reference).

We consider this method as irrelevant for the ratio in consideration is based on averaging profit over a period of time, not cash flows, which is hard to determine to the Project at present moment.

Ipsso facto, we have reservation to use the non-discounting but comparison evaluation techniques in appraising the Project for there did not have other capital investment project(s) to compare. We take the view that the comparison evaluation techniques, in this instance, can only be used when there are benchmarks to compare, say, statutory planned rate of return or payback period, and the evaluation is required for statutory purpose. However, to the best of our understanding, this evaluation is not intended to serve such statutory purposes nor there are reasonable, market-orientated benchmarks published by any recognised authorities in China for the investors to follow. Last but not the least, our instruction was to conduct a financial evaluation based on the materials provided in the Business Plan and to arrive at the financial net present value of the Project, if successful. Under such circumstance, we consider the use of the non-discounting comparison evaluation techniques in this engagement is irrelevant.

Discounted Cash Flows Method (see Note)

In considering the Discounted Cash Flow (“DCF”) Method as the most appropriate method to assess the profitability of the Project, we have used the Net Present Value Analysis. By using this method, the expected cash flows on the Project are set out year by year and brought to a present value by use of present value factors at the appropriate rate. In constructing the cumulative present value table, positive present values are netted off against negative present values so as to arrive at the “net present value” or in short form, NPV. When this net figure is positive then the Project is said to be viable because the stream of inflows is sufficient to pay the interest at the specified rate. Conversely, when the net present value is negative then the Project is not viable.

Note: Data from Bloomberg.com

The NPV is the difference between the present values of project benefits and project costs. The financial NPV is computed using the following formula (for illustration purpose):

$$NPV = \sum_{i=0}^n \frac{b_i - c_i}{(1 + r)^i}$$

where

b_i	=	benefits in period i
c_i	=	costs in period i
r	=	discount rate
n	=	discounting period

The decision criterion is, as said, simple – to accept a project with NPV greater than or equal to zero, and reject if otherwise.

By constructing a cumulative present value table, a cash flows table is required. In preparing the cash flows table, this would necessitate the subtraction, from net income, the capital expenditures and net changes in working capital and the addition of depreciation in the computation of cash flows year by year. The use of the NPV Analysis and its related analysis reflect investment criteria and requires the valuer to make empirical and subjective assumptions.

The first step of the evaluation is to estimate the economic income projection. The projections of the future revenues used in this evaluation were based on the Business Plan provided by the appointed personnel of the Company, and they are responsible for the assumptions upon which the projections are based. Having discussed with the appointed personnel of the Company, we were instructed to follow the projection as contained in the information provided to us and no further verification work is required.

Having discussed with the appointed personnel of the Company and referred to the financial projection provided, we have adopted the following parameters in our evaluation model. They are:

- The forecasted revenue comprises (i) the sales of burial sites and columbarium niches; (ii) management fee of the burial sites and columbarium niches; and (iii) the funeral services.
- According to the management of the Company, there are 37,000 units of columbarium niches remaining as at the Relevant Date, and are assumed to be sold on or before 2014.

- According to the management of the Company, addition of approximately 230,000 burial sites are expected to be developed on the Project Land, and are assumed to be sold on or before 2044.
- The historical CPI of China is ranging from -0.68% to 5.9% in the period of 2005 to 2011. The Company had adopted a base price adjustment of 4%, and the Company believed that the different types of burial site will have different growth rate, where the standard burial sites will have the lowest growth rate of 3% and the family burial sites will have the highest of 7.2%.
- According to the Business Plan provided, most of the burial sites in other cemetery in Hangzhou are sold-out, and the management expect the initial growth rate on the quantity would to be 13%, and the expected annual sale will not be more than 40% of the death population in the urban area of Hangzhou.
- The customers are currently charged by the Project Company 10-year management fee of RMB450 per burial site and new customers are assumed to be charged at a rate by reference to the CPI of China which is expected to be 4% per annum throughout the Forecasted Period.
- A management fee of RMB190 per columbarium niches is expected, and no price adjustment is assumed.
- The funeral service was assumed to be started in 2013, and initially, 30% of the burial site's customer was assumed to be using their funeral service.
- According to the forecast provided, the cost of sale has considered the development and formation cost, cost of raw material as well as other expenses. The gross margin is approximately 70% for the years up to 2014 in which sales of burial sites and columbarium niches are expected to take place. Thereafter, there will be no sales of columbarium niches and the gross margin of the Project Company is expected to improve slightly to a rate not exceeding 80% since the gross margin rate for the burial sites is higher than that of the columbarium niches.

- A 25% tax rate is assumed in the evaluation.
- According to the Business Plan provided, and the advised cost structure, the selling, and general and administrative expenses as well as other expenses is approximately 37% of the total revenue, and the projected net profit margin is ranging from approximately 25% to 35% over the forecasted period up to year 2044.

The next step is to estimate the appropriate present value factor i.e. discount rate. Discount rate equals to cost of capital. The cost of capital represents investors’ expectations and for any given investment is a combination of three basic factors, namely the risk-free rate, the expected inflation and a premium for risk. There are many ways to estimate the discount rate such as the Build-up Model, the Capital Asset Pricing Model (“CAPM”) and the Arbitrage Pricing Model for equity investment, and the Weighted Average of Cost of Capital for normal project investment. The use of the appropriate model in each analyse depends on numerous factors, in particular the future capital structure of the investment. There is no universal model that applies to all cases. In this engagement, we have considered the CAPM Model which is common in valuing a forward looking project.

The CAPM is a model for pricing an individual security (asset) or a portfolio. For individual security perspective, we made use of the security market line (SML) and its relation to expected return and systematic risk (beta) to show how the market must price individual securities in relation to their security risk class. The SML enables us to calculate the reward-to-risk ratio for any security in relation to that of the overall market. Therefore, when the expected rate of return for any security is deflated by its beta coefficient, the reward-to-risk ratio for any individual security in the market is equal to the market reward-to-risk ratio, thus,

$$r_a = r_f + \beta_a (r_m - r_f)$$

- Where,
- r_a = CAPM derived discount rate
 - r_f = risk free rate
 - β_a = beta of the asset
 - r_m = expected market return

APPENDIX VI

VALUATION REPORT ON THE PROJECT COMPANY

In estimating the discount rate in the evaluation, we have adopted the market-derived discount rate by CAPM model by using the market data of listed companies in Asia with business similar to the Project. By excluding the outliers, we have adopted a beta of 0.56, risk free rate of 3.34%, and market return of 15.79%. With considering with size risk premium of 3.89%, the cost of equity of 14% was adopted in the evaluation. Details for the comparable companies are listed as follows,

Name of the Listed Companies	Beta	D/E
Heian Ceremony Service Company Limited (2344.JP)	0.50	0.00
Zinwell Corporation (2485.JP)	0.46	1.06
Sun-Life Corporation (4656.JP)	0.53	0.00
San Holdings Incorporation (9628.JP)	0.62	0.41
Nichiryoku Co., Ltd (7578.JP)	0.41	2.11
China Boon Holdings Limited (922.HK)	0.59	0.31
Zmay Holdings Limited (8085.HK)	0.47	0.02
Sage International Group Ltd (8082.HK)	0.72	0.75
Lung Yen Life Service Corporation (5530.TT)	0.82	0.07

* Due to rounding process, the figures will be different from the actual worksheet.
Source: Bloomberg

All of the comparable companies are engaged in the funeral and burial business, and according to Bloomberg, the funeral and cemeteries business represent over 50% of all the comparable companies’ revenue, except for Sage International Group Limited, which approximately 20% of its revenue was contributed from funeral and cemeteries business. A brief description of their operations is listed below.

Company Ticker	Description
2344.JP	Heian Ceremony Service Co., Ltd provides wedding and funeral services. It also operates catering services for parties and special events. Additionally, Heian Ceremony Service Co., Ltd also offers consulting for property and casualty insurances.
2485.JP	Tear Corporation Provides funeral services and operates funeral parlors. It also provides services related to inheritance.
4656.JP	Sun-Life Corporation provides wedding and funeral services. It also operates hotels, nursing and personal care facilities, and vocational school.

APPENDIX VI

VALUATION REPORT ON THE PROJECT COMPANY

Company Ticker	Description
7578.JP	Nichiryoku Co, Ltd. Develops cemeteries and sells cemetery grounds as well as tombstones. It provides related construction and management services.
922.HK	China Boon Holdings Ltd. is principally engaged in developing and managing cemeteries.
8085.HK	ZMAY Holdings Limited is principally engaged in healthcare products, Electronic Components, and Funeral and Related Business.
8082.HK	Sage International Group Limited is principally engaged in the funeral and burial business in China. It offers online subscriptions on cemeteries Sage owns, finds Feng Shui ground remotely, and provides financing to needy families on funeral and group purchasing needs.
5530.TT	Lung Yen Life Service Corp operates a cemetery and offers funeral and disposition services.

At the time we arrived at our evaluation, we have conducted a sensitivity analysis on the Net Present Value of the Project if changes in the assumptions used in the calculations/projections were to take place. Sensitivity analysis scenarios on two major parameters – the cost of equity and forecasted revenue used in the financial evaluation of the Project with the following results.

	Net Present Value as at the Relevant Date						
	RMB (Million)						
	Change of Revenue						
	-30%	-20%	-10%	0%	10%	20%	30%
Cost of Equity							
18%	231	309	387	466	544	622	701
16%	293	390	487	584	681	778	875
14%	381	504	627	750	874	997	1,120
12%	508	669	830	990	1,151	1,311	1,472
10%	698	913	1128	1,344	1,559	1,774	1,990

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

No allowance has been made in our evaluation for any charges, mortgages, outstanding premium or amounts owing on the Project. Also, no allowance has been made in our evaluation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Project. Unless otherwise stated, it is assumed that the Project is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

In the course of evaluation, we have assumed that the Project is able to implement without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported conclusion significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

As at the Latest Practicable Date of the circular, we have not identified any adverse news against the Project which may affect our findings and conclusion in our report. Thus, we are not in the position to report and comment on its impact (if any) to the Project. However, should it be established subsequently that such news did exist as at the date of this report, we reserve the right to amend this report and conclusion reported herein.

INSPECTIONS AND INVESTIGATIONS

At the representation of the appointed personnel of the Company, we have conducted a limited scope of inspection on the Project Land in respect of which we have been provided with such information as we have requested for the purpose of our evaluation. We have not inspected those parts of the property which were covered, unexposed, not being arranged or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of uninspected parts and our report should not be taken as making any implied representation or statement about such parts. No structural survey, investigation, test or examination has been made, but in the course of our inspections we did not note any serious defects in the property inspected. We are not, however, able to report that the inspected property is free from rot, insect, infestation or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our evaluation has been made on the assumption that no unauthorised alteration, extension or addition has been made in the premises that occupied by the Project, and that the inspection and the use of our report do not purport to be a building or conditional survey of the inspected property. We have assumed that the premises are free of rot and inherent danger or unsuitable materials and techniques.

If there is a third party other than the legally interested parties in the Project proposing to acquire the Project and wants to satisfy them as to the Project of which forms part of a going concern business of the Project Company, if successful, then the third party should obtain a relevant surveyor’s detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

We have not carried out on-site measurements to verify the correctness of the areas or specifications of the Project Land, but have assumed that the areas and specifications shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to evaluate did not include an independent land survey to verify the legal boundaries of the Project Land. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the Project Land that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the Project Land should conduct their own legal boundaries due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Project Land which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the property. We have not carried out any investigation into past or present uses, either of the property or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the property from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the Project Land or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported.

SOURCES OF INFORMATION AND ITS VERIFICATION

For the purpose of our work, we were furnished with the Business Plan and other documents related to the Project as part of a going concern business of the Project Company, if successful. The projections of the future revenues and expenditures as part of a going concern business of the Project Company, if successful, were referenced to the Business Plan and the appointed personnel of the Company is responsible for the assumptions upon which the projections are based. This information has been utilised without further verification. We have had no reason to doubt the truth and accuracy of the information that we have been furnished. No responsibility is assumed for the accuracy of the provided information.

For the purpose of this evaluation, we were furnished with various copies of the above named or unnamed documents related to this report and these copies have been referenced without further verifying with the relevant bodies and/or authorities. We need to state that we are not legal professionals, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company or its appointed personnel. No responsibility is assumed.

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, procedures to obtain necessary approvals, locations, titles, easements, clientele, products (type and class), site areas and all other relevant matters.

Unless otherwise stated, we have not carried out an evaluation on a redevelopment basis on the Project Land and the study of possible alternative development options and the related economics do not come within the scope of our report.

We are not contracted to conduct a due diligence to review the existing cemetery industry and the official policy on granting out operation right of cemetery business in the PRC. In the course of our work, we have solely depended on the advice given by the management of the Company. We are unable to accept any responsibility for the reliability of the advice.

Also, we are not contracted to conduct a detailed geological study or pre-feasibility study or feasibility study, thus, the report is not a detailed evaluation of the feasibility of developing a cemetery in the Project Land. In the course of our work, we have solely depended on the Business Plan and advice given by the management of the Company. We are unable to accept any responsibility for the reliability of the advice.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to evaluate or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our report.

When we adopted the work products from other professions, external service/data providers and/or the management of the Company in our evaluation, the assumptions and caveats adopted by them in arriving at their opinions also applied in our evaluation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our evaluation.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company. We have sought and received confirmation from the management of the Company that no material factors have been omitted from the information supplied. The report is based upon the assumption of full disclosure between the Company and us of material and latent facts that may affect the evaluation. No responsibility is assumed for withheld information (if any).

Unless otherwise stated, the base currency of our report is Renminbi Yuan (“RMB”).

LIMITING CONDITIONS OF THIS REPORT

This report is provided strictly for the sole use of the instructing party. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular for the Company’s Shareholders’ reference.

Our opinion in this report is valid only for the stated purpose and only for the Relevant Date. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of our services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

It is agreed that the Company and the instructing party are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney’s fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

CONCLUSION

Based on the investigation, analysis, reasoning and data outlined as above, and on the method employed, it is our opinion that as at the Relevant Date, the financial net present value of the Project as part of a going concern business of the Project Company, if successful (before taking into consideration any transaction costs), is reasonably stated by the amount of **RENMINBI SEVEN HUNDRED AND FIFTY MILLION YUAN ONLY (RMB750,000,000)**.

STATEMENTS

Our conclusion is based on generally accepted evaluation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the evaluation, the readers are urged to consider carefully the nature of such assumptions which are disclosed in our report and should exercise caution in interpreting our report.

Our evaluation is prepared in line with the guidelines as contained in the IVS. The evaluation has been undertaken by valuers (see End Note), acting as external valuers, qualified for the purpose of the evaluation.

We retain a copy of this report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of our report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the instructing party’s authorisation and prior arrangement made with us. Moreover, we will add the Company’s information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion and we have no present nor prospective interest in the Project, the Project Company, the Company or the figure reported.

Yours faithfully,

For and on behalf of

LCH (Asia-Pacific) Surveyors Limited

Joseph Ho Chin Choi *BSc PgD MSc RPS (GP) (PFM)*

Managing Director

Contributing Valuer:

Kevin Lee Ho Man *BMath*

Mr. Joseph Ho Chin Choi has been conducting asset valuations and/or advisory work in Hong Kong, Macau, Taiwan, mainland China, the Philippines, Vietnam, Malaysia, Singapore, Thailand, Bangladesh, Japan, Australia, Kazakhstan, Madagascar, Scotland, Finland, Germany, Poland, Brazil, Argentina, Guyana, Canada and the United States of America for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. He has extensive experience in the valuation of various types of assets and power plants, toll road, health products and foodstuffs, coking coal plant, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, semiconductors, mineral resources, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Taiwan, mainland China, Singapore, Malaysia, Canada, the United Kingdom and the United States of America. He is a Fellow of the Hong Kong Institute of Surveyors. At present, he is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors.

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuation as at 30 September 2012 of the property interests of the Enlarged Group.

A. PROPERTY INTERESTS OF THE PROJECT COMPANY



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

PROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL ASSETS VALUER

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standard 2011 (the “IVS”) published by the International Valuation Standards Council as well as the HKIS Valuation Standards on Properties, First Edition, 2005 (the “HKIS Standards”) published by the Hong Kong Institute of Surveyors (the “HKIS”). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader’s identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitution to this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
Nos. 287-291 Des Voeux Road Central
Hong Kong

28 November 2012

The Board of Directors
China Boon Holdings Limited
Room 2118
Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of China Boon Holdings Limited (hereinafter referred to as the “Company”) to us to value certain designated property interests i.e. real properties held by Zhejiang Anxian Yuan Company Limited (hereinafter referred to as the “Project Company”) and to report certain property interests rented by the Project Company in the People’s Republic of China (hereinafter referred to as the “PRC” or “China”), we confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary to support our findings or conclusion of value of the property interests as at 30 September 2012 (hereinafter referred to as the “Date of Valuation”) for the Company’s internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) will form part of the Company's due diligence but we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision regarding the properties valued. Our work is designed solely to provide information that will give a reference to the management of the Company as part of its due diligence process, and our work should not be the only factor to be referenced by the management of the Company. Our findings or conclusion of value in these properties are documented in a valuation report and submitted to the Company at today's date.

At the request of the management of the Company, we prepared this summary report (including this letter, summary of values and a valuation certificate) to summarise our findings and conclusions as documented in the valuation report for the purpose of inclusion in this circular at today's date for the Company's shareholders' reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also applied to this summary report.

VALUATION OF PROPERTY IN GROUP I WITH LONG-TERM TITLE CERTIFICATE

Basis of valuation and assumptions

According to the IVS which the HKIS Standards also follows, there are two valuation bases in valuing a property, namely market value basis and valuation bases other than market value. We have provided our opinion of value of the property on the market value basis.

The term "Market Value" is defined by the HKIS Standards as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Unless otherwise stated, our valuation of the property has been made on the assumptions, that, as at the Date of Valuation:

1. the legally interested party in the property has absolute title to its relevant property interests;
2. the legally interested party in the property has free and uninterrupted rights to assign its relevant property interest for the whole of the unexpired term as granted, and any premiums payable have already been fully paid;

3. the legally interested party in the property sells its relevant property interest in the market in its existing states without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the property interest;
4. the property has obtained relevant government's approvals for the sale of the property and is to be disposed of and transferred free of all encumbrances (including but not limited to the cost of transaction) in the market; and,
5. the property can be freely disposed and transferred free of all encumbrances at the Date of Valuation for its existing uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to our valuation.

Approach to Value

There are three generally accepted approaches in arriving at the market value of a property, namely the Sales Comparison Approach (or known as the Market Approach), the Cost Approach and the Income Approach.

In valuing the property in Group I, we have adopted the Sales Comparison Approach on the assumption that the property was sold with the benefit of vacant possession as at the Date of Valuation. This approach considers the sales, listing or offerings of similar or substitute properties and related market data establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

Unless otherwise stated, we have not carried out a valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of our work.

VALUATION OF PROPERTIES IN GROUPS II AND III WITH RESTRICTED TITLES

In valuing property in Group II, as we have not been provided with a valid State-owned Land Use Rights Certificate or the like, and the PRC legal opinion prepared by 廣信律師事務所 (Guangxin Lawyers) and dated 19 November 2012 opined that the property is restricted to freely transfer to other parties, we have attributed no commercial value i.e. market value to this property.

In valuing property in Group III, we have attributed no commercial value i.e. market value to the property as the property is an administratively allocated land in nature and transferability is restricted.

Unless otherwise stated, we have not carried out a valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of our work.

REPORTING OF CERTAIN RENTED PROPERTY INTERESTS IN GROUP IV

Properties in Group IV are subject to various leasehold arrangements, and we have assigned no commercial values to such property interests due mainly to the short-term nature of the tenancy agreements or prohibition against assignment or sub-letting or lack of substantial profit rents.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

For the sake of valuation, we have adopted the areas as appeared in the copies of the documents as provided and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve rights to revise our report and the valuation accordingly.

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the property valued in Group I nor any expenses or taxation which may be incurred in affecting a sale. Unless otherwise stated, it is assumed that the property is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

In our valuation for property in Group I, we have assumed that the property is able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported value significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

As at the Latest Practicable Date of this circular, we were unable to identify any adverse news against the properties which may affect the reported findings or conclusion of value in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the findings or conclusion of value reported herein.

ESTABLISHMENT OF TITLES

Based on the purpose of this engagement, the management of the Company provided us the necessary copies of documents to support that the legally interested party in the properties, i.e. the Project Company, has free and uninterrupted rights to transfer OR to use the property interests free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed (if any). However, we have not inspected the original documents to verify ownership and encumbrances, or to ascertain the existence of any amendment which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal titles and the rights (if any) to the subject properties. Any responsibility for our misinterpretation of the documents cannot be accepted.

The land registration system of China forbids us to search the original documents of the properties that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copies of document and the copy of the PRC legal opinion provided by the management of the Company with regard to the legal title of the properties. We were given to understand that the PRC legal opinion was prepared by a qualified PRC legal adviser 廣信律師事務所 (Guangxin Lawyers) dated 19 November 2012. No responsibility or liability from our part is assumed in relation to the legal opinion.

In our report, we have assumed that the Project Company has obtained all the approval and/or endorsement from the relevant authorities to own or to use the subject properties, and that there would be no legal impediment (especially from the regulators) for the Project Company to continue the legal titles to the subject properties. Should this not be the case, it will affect our findings or conclusion of value in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

**INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH
VALUATION STANDARD 4 OF THE HKIS STANDARDS**

We have conducted inspections to the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of this engagement. The inspections were conducted by our team members, namely, Mr Kevin Lee, Mr Sammy Wong, and Sr Elsa Ng during the period of October 2012 to November 2012. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in a reasonable condition. We cannot express an opinion about or advice upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the building utilities (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our work has been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspections and the use of this report do not purport to be a building survey of the properties. We have also assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and official layout plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to work did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the properties that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the properties, or has since been incorporated, and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this engagement, we have assumed that such investigation would not disclose the presence of any such material to any significant extent.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported or our findings.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VALUATION STANDARD 5 OF THE HKIS STANDARDS

In the course of our work, we have been provided with copies of the documents regarding the properties such as copies of tenancy agreements, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures did not require us to conduct any searches or inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not legal professional, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company.

We have relied solely on the information provided by the management of the Company or the Project Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, rental, letting, occupation, site and floor areas and all other relevant matters.

The scope of valuation has been determined by reference to the property list provided by the management of the Company. All properties on the list have been included in our valuation. The management of the Company has confirmed to us that the Project Company has no property interest other than those specified on the list supplied to us.

Our work has been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our report.

When we adopted the work products from other professions, external data providers and the management of the Company in our work, the assumptions and caveats that adopted by them in arriving at their figures also apply in this report. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or the Project Company or its appointed personnel. Also, we have sought and received confirmation from the management of the Company that no material factors have been omitted from the information supplied. Our analysis or valuation is based upon full disclosure between us and the management of the Company or the Project Company of material and latent facts that may affect our work.

We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or the Project Company or its appointed personnel. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan (“RMB”).

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our findings or conclusion of value of the properties in this report are valid only for the stated purpose and only for the Date of Valuation, and for the sole use of the instructing party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and the valuer accepts no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and local government policy and no obligation is assumed to revise this report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular for the Company's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

It is agreed that the Company and the instructing party are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

The attached summary of values and valuation certificate are prepared in line with the requirements contained in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in both the IVS and HKIS Standards. The valuation have been undertaken by professional surveyor (see End Note), acting as external valuer, qualified for the purpose of the valuation.

We retain a copy of this summary report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the instructing party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The analysis or valuation of the properties depends solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported findings or conclusion of value significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no significant interest in the properties, the Company, the Project Company or the value reported.

Our findings and conclusion of value are summarised below and the valuation certificate is attached.

Yours faithfully,

For and on behalf of

LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *B.Sc. M.Sc. RPS(GP)*

Director

Ms Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 13 years of experience in valuing properties in mainland China. She is a Member of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

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PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

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PROPERTY VALUATION REPORT OF
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SUMMARY OF VALUES

Group I – Property held and occupied by the Project Company with long-term title certificate in the PRC on market value basis

Property	Amount of valuation in its existing state with an entire interest attributable to the Project Company as at 30 September 2012 RMB
1. Room 502 on Level 5 Er Dan Yuan, Tower 13 District 3 Cuiyuan New Village Xihu District Hangzhou City Zhejiang Province The PRC	750,000
Sub-total:	RMB750,000

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PROPERTY VALUATION REPORT OF
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Group II – Property held by the Project Company for investment with restricted title in the PRC on market value basis

Property	Amount of valuation in its existing state with an entire interest attributable to the Project Company as at 30 September 2012 RMB
2. Four non-domestic buildings located at No. 64 Changzhengqiao Road Gongshu District Hangzhou City Zhejiang Province The PRC	No Commercial Value
Sub-total:	Nil

Group III – Property held by the Project Company for development with restricted title in the PRC on market value basis

Property	Amount of valuation in its existing state with an entire interest attributable to the Project Company as at 30 September 2012 RMB
3. Zhejiang Anxian Cemetery located at Shuihongmiao Village Chongxian Town Yuhang District Hangzhou City Zhejiang Province The PRC	No Commercial Value
Sub-total:	Nil

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PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

Group IV – Properties occupied by the Project Company under various operating leases in
the PRC

Property	Amount of valuation in its existing state with an entire interest attributable to the Project Company as at 30 September 2012
4. Shop No. 102, Level 1, San Dan Yuan, Tower 6 Daguandong Six Garden No. 28 Xiyuan Road Gongshu District Hangzhou City Zhejiang Province The PRC	No Commercial Value
5. A unit of a building located at Level 1 No. 266 Hemu Road Gongshu District Hangzhou City Zhejiang Province The PRC	No Commercial Value
6. A unit of a building located at Level 1 No. 6 Xing Zhou Street Hangzhou City Zhejiang Province The PRC	No Commercial Value
7. A unit of a building located at Level 1 No. 25 Qinglong Road Xihu District Hangzhou City Zhejiang Province The PRC	No Commercial Value

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Property	Amount of valuation in its existing state with an entire interest attributable to the Project Company as at 30 September 2012
8. A unit located at the eastern side on Level 1 of a building which located at No.12 Yan Jia Road Xintang Community Jiangan District Hangzhou City Zhejiang Province The PRC	No Commercial Value
9. A unit known as No. 103, Level 1 San Dan Yuan Tower 23 Shuiliushi Lane Xinhua Road Xiacheng District Hangzhou City Zhejiang Province The PRC	No Commercial Value
10. A unit on the eastern side of Level 1 Zhejiang Elderly Centre No. 31 Huan Cheng Xi Road Xihu District Hangzhou City Zhejiang Province The PRC	No Commercial Value

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PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

Property	Amount of valuation in its existing state with an entire interest attributable to the Project Company as at 30 September 2012
11. An office unit known as Room 201 located at Level 2 and a Service Counter known as No. 9, located at Level 1 Caihe Jiedao Service Centre No. 1 Wuan Road Jianggan District Hangzhou City Zhejiang Province The PRC	No Commercial Value
12. A unit located at Level 1, Block 5 Group Staff Quarters Hanggang Community Banshan Road Gongshu District Hangzhou City Zhejiang Province The PRC	No Commercial Value
13. A unit of a building located at No. 16 Ningbo Road Deng Yun Xin Cun Hangzhou City Zhejiang Province The PRC	No Commercial Value
14. A unit of a building located at No. 118 Cheng Huang Pai Lou Lane Shang Cheng District Hangzhou City Zhejiang Province The PRC	No Commercial Value

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Property	Amount of valuation in its existing state with an entire interest attributable to the Project Company as at 30 September 2012
15. A unit of a building located at No.184 Zhong Shan Zhong Road Shang Cheng District Hangzhou City Zhejiang Province The PRC	No Commercial Value
16. A unit known as No. 101 on Level 1 of Tower 5 Zhao Hui Yi Qu Hangzhou City Zhejiang Province The PRC	No Commercial Value
17. A unit of a building located at No.34 Shuang Dang Lane Hangzhou City Zhejiang Province The PRC	No Commercial Value
18. A unit known as Room 101-1 of a building located No. 11 Wen Er Road Xihu District Hangzhou City Zhejiang Province The PRC	No Commercial Value
	Sub-total: Nil
	Grand Total RMB750,000

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PROPERTY VALUATION REPORT OF
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VALUATION CERTIFICATE

Group I – Property held and occupied by the Project Company with long-term title certificate
in the PRC on market value basis

			Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and tenure	Particulars of occupancy	
1. Room 502 on Level 5 Er Dan Yuan Tower 13 District 3 Cuiyuan New Village Xihu District Hangzhou City Zhejiang Province The PRC	The property comprises a residential unit on Level 5 of a 6-storey residential building. The building was completed in about 1986. The property has a gross floor area of approximately 41 sq. m. The property is subject to a right to use the land for a term till 27 June 2058 for residential usage.	We have inspected the property and confirmed by the management of the Company that the property is used for staff quarters purpose.	RMB750,000 (100 per cent. interest)

Notes:

- According to a State-owned Land Use Rights Certificate known as Hang Xi Guo Yong (2005) Zi Di 008003 Hao (杭西國用(2005)字第008003號) issued by the Land Resources Bureau of Hangzhou City on 2 June 2005, the legally interested party with an undivided share of land of approximately 21.8 sq. m. in the property was 浙江安賢陵園有限責任公司 (translated as Zhejiang Anxian Yuan Company Limited and hereinafter referred to as “Zhejiang Anxian”), with a term of land use till 27 June 2058 for residential purpose.
- Pursuant to a Building Ownership Certificate known as Hang Fang Quan Zheng Xi Yi Zi Di 05422654 Hao (杭房權證西移字第05422654號) issued by the Housing Management Bureau of Hangzhou City dated 25 May 2005, the legally interested party in the property having a gross floor area of 41 sq. m. is Zhejiang Anxian.
- According to the legal opinion prepared by the Company’s PRC legal adviser, the following opinions are noted:
 - Zhejiang Anxian is the legally interested party in the property;
 - The property is not subject to any mortgage, encumbrances or possibility of seizure; and
 - Zhejiang Anxian has the right to use, let, transfer or mortgage the property.

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PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

Group II – Property held by the Project Company for investment with restricted title in the PRC on market value basis

			Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and tenure	Particulars of occupancy	
2. Four non-domestic buildings located at No. 64 Changzhengqiao Road Gongshu District Hangzhou City Zhejiang Province The PRC	The property comprises four blocks of 2 to 3-storey non-domestic buildings. The buildings were completed in about 1993. The property has a total gross floor area of approximately 2,669.8 sq.m. (See Note 1) The property is restricted for non-domestic usage without a specified land tenure.	We have inspected and as confirmed by the management of the Company that the property is occupied by a third party for office purpose. (See Note 3)	No Commercial Value (See Note 4)

Notes:

- Pursuant to a Building Ownership Certificate known as Hang Fang Quan Zheng Gong Yi Zi Di 08617670 Hao (杭房權證拱移字第08617670號) issued by the Housing Management Bureau of Hangzhou City dated 28 January 2008, the legally interested party in the property having a total gross floor area of approximately 2,669.8 sq.m. was 浙江安賢陵園有限責任公司 (translated as Zhejiang Anxian Yuan Company Limited and hereinafter referred to as “Zhejiang Anxian”) for non-domestic usage without a specified land tenure.
- Pursuant to an Agreement entered between Zhejiang Anxian and 葉慶壽 (translated as “Ye Qing Shou”) dated 26 May 2009, Zhejiang Anxian authorised such third party to use and manage the property for a term of 10 years commencing from 1 June 2009 to 31 May 2019 or to vacate the property one month prior to the receipt of the resumption notice issued by the local people’s government, which ever is earlier, at an amount of RMB1 exclusive of all the maintenance and taxation fee.

3. According to the legal opinion prepared by the Company’s PRC legal adviser, the following opinions are noted:
- (i) Zhejiang Anxian is the legally interested party in the above-mentioned buildings of the property;
 - (ii) the building of the property is not subject to any mortgage, encumbrances or possibility of seizure;
 - (iii) Zhejiang Anxian has acquired the property through a bankruptcy property auction in 2006. The property is within the boundary of land resumption and pursuant to the conditions of the auction, Zhejiang Anxian will only be able to receive the highest amount of RMB2,100,000 upon the resumption and clearance of the property in the future; and
 - (iv) Zhejiang Anxian is not allowed to freely handle the building ownership rights of the property.
4. Pursuant to the legal opinion mentioned in Note 3 above, we have attributed no commercial value to the property due to Zhejiang Anxian’s restricted title to the property on its transferability.

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PROPERTY VALUATION REPORT OF

THE ENLARGED GROUP

Group III – Property held by the Project Company for development with restricted title in the PRC on market value basis

			Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and tenure	Particulars of occupancy	
3. Zhejiang Anxian Cemetery located at Shuihongmiao Village Chongxian Town Yuhang District Hangzhou City Zhejiang Province The PRC	The property comprises a parcel of land having a site area of approximately 647,715.1 sq. m. with a major building and construction works in progress erected thereon. Out of this site area, approximately 142,503 sq.m. had been developed for the cemetery which including burial sites, green zone and accessories. The major buildings erected on the land include a 2-storey building having a gross floor area of approximately 2,121.63 sq. m. completed in about 2003, and a multi-storey structure for housing totally 63,000 columbarium niches, completed in about 2012. <i>(See Note 2)</i> We are given to understand according to the current development plan, the Project Company will construct approximately 230,000 burial sites in aggregate on the land for sale on or before 2044. The property is subject to an administratively allocated land use right for cemetery purpose without a specified land tenure.	We have inspected the property and confirmed by the management of the Company that, apart from the 2-storey building which is occupied by the Project Company for office purpose, the rest of the property is currently occupied for cemetery purpose. We noted that there was a temple having an estimated gross floor area of approximately 3,500 sq.m. erected on the land.	No Commercial Value <i>(See Note 4)</i>

Notes:

1. According to a State-owned Land Use Rights Certificate known as Hang Yu Guo Yong (2003) Zi Di 8-834 Hao (杭余國用(2003)字第8-834號) issued by the Land Resources Bureau of Hangzhou City on 5 June 2003, the legally interested party in the land having a site area of approximately 647,715.1 sq.m is the Project Company i.e. 浙江安賢陵園有限責任公司 (translated as Zhejiang Anxian Yuan Company Limited and hereinafter referred to as “Zhejiang Anxian”) for cemetery purpose without a specified land tenure.
2. Pursuant to a Building Ownership Certificate known as Yu Fang Quan Zheng Chong Zi Di 0000961 Hao (余房權證崇字第0000961號) issued by the Housing Management Bureau of Hangzhou City dated 30 April 2006, the legally interested party in the building having a gross floor area of 2,121.63 sq. m. is Zhejiang Anxian for non-domestic purpose.
3. According to the legal opinion prepared by the Company’s PRC legal adviser, the following opinions are noted:
 - (i) Zhejiang Anxian has obtained the land use right of the property legally;
 - (ii) The property is not subject to any mortgage, encumbrances or the possibility of seizure;
 - (iii) Zhejiang Anxian is the legally interested party in the above-mentioned buildings in Note 2 of the property;
 - (iv) Zhejiang Anxian has the right to use the land in compliance with the permitted usage under the State-owned Land Use Rights Certificate;
 - (v) Zhejiang Anxian is not allowed to freely assign, transfer or mortgage the land use right of the allocated land; and
 - (vi) According to an approval letter issued by 余杭區民族宗教事務局 (translated as Race and Religion Management Bureau of Yu Hong District) dated 9 October 2005, approval was given to Buddhist Association of Yu Hong District (余杭區佛教協會) for the construction of a temple on the land as mentioned in Note 1 above.
 - (vii) According to an approval letter issued by 杭州市余杭區發展及改革局 (translated as Development and Reform Bureau of Yu Hong District, Hangzhou City) dated 5 January 2006, approval was given for the construction of a temple having a gross floor area of approximately 3,500 sq. m. on the land as mentioned in Note 1 above.
 - (viii) regarding the temple to be constructed within the allocated land, as the land was allocated by the local government at nil premium to Zhejiang Anxian for cemetery purpose, the government has the right to approve the construction of the temple, which is cemetery related, on the allocated land.
4. Pursuant to the legal opinion mentioned in Note 3 above, we have attributed no commercial value i.e. market value to the property due to the restricted title to the property on its transferability. However, at the request of the Company for its reference purpose, the depreciated replacement cost of the aforesaid 2-storey building with a gross floor area of approximately 2,121.63 sq.m. (excluding the land) as at the Date of Valuation was approximately RMB5,000,000.
5. We were advised that, as at the Date of Valuation, the development and formation costs incurred on the property was approximately RMB 241.5 million and the expected capital expenditure is approximately RMB 47 million for the next five years.

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THE ENLARGED GROUP

Group IV – Properties occupied by the Project Company under various operating leases
in the PRC

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
4. Shop No. 102, Level 1 San Dan Yuan Tower 6	The property comprises a unit on Level 1 of a 6-storey composite building which was completed in about 1980’s.	No Commercial Value
Daguandong Six Garden	According to the information provided, the property has a lettable floor area of approximately 60 sq. m.	
No. 28 Xiyuan Road Gongshu District Hangzhou City Zhejiang Province The PRC	The property is rented to the Project Company for a term of 1 year commencing from 1 September 2012 to 31 August 2013 at an exclusive annual rental of RMB40,000. As inspected and as advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	

Notes:

- The lessor of the property is 胡麗娟 (translated as Hu Lai Juan), an independent party to the Project Company.
- The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

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PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
5. A unit of a building located at Level 1 No. 266 Hemu Road Gongshu District Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 with a cockloft of a single storey commercial building which was completed in about 2007. According to the information provided, the property has a lettable floor area of approximately 94 sq. m. The property is rented to the Project Company for a term of 3 years commencing from 6 January 2010 to 5 January 2013 at an exclusive annual rental of RMB85,000. As inspected and as advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

Notes:

1.

The lessor of the property is 鄭強 (translated as Zheng Qiang), an independent party to the Project Company.
2.

The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

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PROPERTY VALUATION REPORT OF

THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
6. A unit of a building located at Level 1 No. 6 Xing Zhou Street Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 6-storey composite building which was completed in about 2002. According to the information provided, the property has a lettable floor area of approximately 25.33 sq. m. The property is rented to the Project Company for a term of 2 year commencing from 1 January 2011 to 31 December 2012 at an exclusive monthly rental of RMB1,800. As inspected and as advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

- Notes:
- The lessor of the property is 孫軍 (translated as Sun Jun), an independent party to the Project Company.
 - The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

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PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
7. A unit of a building located at Level 1 No. 25 Qinglong Road Xihu District Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 7-storey composite building which was completed in about 2005. According to the information provided, the property has a lettable floor area of approximately 28 sq. m. The property is rented to the Project Company for a term of 2 years from 10 February 2012 to 9 February 2014 at an exclusive annual rental of RMB35,000. As inspected and as advised by the management of the Company, the property was occupied by the Project Company for office purpose.	No Commercial Value

- Notes:
- The lessor of the property is 王力波 (translated as Wang Libo), an independent party to the Project Company.
 - The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限公司).

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THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
8. A unit located at the eastern side on Level 1 of a building which located at No.12 Yan Jia Road Xintang Community Jianggan District Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 2-storey building which was completed in about 1983. According to the information provided, the property has a lettable floor area of approximately 10 sq. m. As at the date of our inspection, the property was subject to a monthly arrangement rented to the Project Company at an exclusive annual rental of RMB20,000. As advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

- Notes:
- The lessor of the property is 馮阿鳳 (translated as Von Ah Feng), an independent party to the Project Company.
 - The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

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THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
9. A unit known as No. 103, Level 1 San Dan Yuan Tower 23 Shuiliushi Lane Xinhua Road Xiacheng District Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 6-storey composite building which was completed in about 1981. According to the information provided, the property has a lettable floor area of approximately 55 sq. m. The property is rented to the Project Company for a term of 2 years from 15 March 2011 to 14 March 2013 at an exclusive annual rental of RMB45,000. As inspected and as advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

- Notes:
- The lessor of the property is 王康富 (translated as Wang Kang Fu), an independent party to the Project Company.
 - The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

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PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
10. A unit on the eastern side of Level 1 Zhejiang Elderly Centre No. 31 Huan Cheng Xi Road Xihu District Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 9-storey building which was completed in about 1998. According to the information provided, the property has a lettable floor area of approximately 9 sq. m. The property is rented to the Project Company for a term of 2 years from 1 January 2012 to 31 December 2014 at an exclusive annual rental of RMB10,000. As advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

- Notes:
- The lessor of the property is 浙江省老年活動中心 (translated as Zhejiang Elderly Centre), an independent party to the Project Company.
 - The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

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THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
11. An office unit known as Room 201 located at Level 2 and a Service Counter known as No. 9 located at Level 1 Caihe Jiedao Service Centre No. 1 Wuan Road Jianggan District Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 2 and a service counter on Level 1 of a 3-storey building which was completed in about 2000’s. According to the information provided, the property has a gross floor area of approximately 19.76 sq. m. The property is rented to the Project Company for a term of 2 year from 1 January 2012 to 31 December 2013 at an exclusive annual rental of RMB26,425. As advised by the management of the Company, the property was occupied by the Project Company for office purpose.	No Commercial Value

- Notes:
- The lessor of the property is 采荷街道綜合服務中心 (translated as Caihe Jiedao Service Centre), an independent party to the Project Company.
 - The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

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PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
12. A unit located at Level 1, Block 5 Group Staff Quarters Hanggang Community Banshan Road Gongshu District Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 6-storey composite building which was completed in about 1985. According to the information provided, the property has a lettable floor area of approximately 15 sq. m. The property is rented to the Project Company for a term of 3 years from 1 September 2012 to 31 August 2015 at an exclusive annual rental of RMB17,280. As advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

Notes:

- The lessor of the property is 杭州鋼鐵集團公司 (translated as Hangzhou Steel Group Ltd.), an independent party to the Project Company.
- The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

APPENDIX VII

PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
13. A unit of a building located at No. 16 Ningbo Road Deng Yun Xin Cun Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 6-storey composite building which was completed in about 1982. According to the information provided, the property has a lettable floor area of approximately 30 sq. m. The property is rented to the Project Company for a term of 2 years from 21 February 2012 to 20 February 2014 at an exclusive monthly rental of RMB1,200. As advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

Notes:

- The lessor of the property is 蔣婷芬 (translated as Jiang Tingfen), an independent party to the Project Company.
- The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

APPENDIX VII

PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
14. A unit of a building located at No. 118 Cheng Huang Pai Lou Lane Shang Cheng District Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 2-storey building which was completed in about 1800's. According to the information provided, the property has a lettable floor area of approximately 14 sq. m. The property is rented to the Project Company for a term from 1 January 2011 to 15 May 2013 at an exclusive annual rental of RMB26,000. As advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

Notes:

- The lessor of the property is 韓忠寶 (translated as Han Zhong Bao), an independent party to the Project Company.
- The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

APPENDIX VII

PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
15. A unit of a building located at No.184 Zhong Shan Zhong Road Shang Cheng District Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 7-storey composite building which was completed in about late 1987. According to the information provided, the property has a gross floor area of approximately 26.74 sq. m. The property is rented to the Project Company for a term from 1 February 2011 to 31 December 2012 at an exclusive monthly rental of RMB3,700. As advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

Notes:

- The lessor of the property is 杭州世創商務展覽有限公司 (translated as Hangzhou Shichuang Business Exhibition Co., Ltd.), an independent party to the Project Company.
- The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

APPENDIX VII

PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
16. A unit known as No. 101 on Level 1 of Tower 5 Zhao Hui Yi Qu Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 6-storey composite building which was completed in about 1982. According to the information provided, the property has a gross floor area of approximately 30 sq. m. The property is rented to the Project Company for a term of 2 years from 26 February 2011 to 25 February 2013 at an exclusive annual rental of RMB35,000. As advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

Notes:

1.

The lessor of the property is 周斌 (translated as Zhou Bin), an independent party to the Project Company.
2.

The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

APPENDIX VII

PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
17. A unit of a building located at No.34 Shuang Dang Lane Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 6-storey composite building which was completed in about 1990. According to the information provided, the property has a lettable floor area of approximately 44.34 sq. m. The property is rented to the Project Company for a term of 2 years from 1 April 2011 to 31 March 2013 at an exclusive annual rental of RMB40,000. As advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

Notes:

- The lessor of the property is 張蕾 (translated as Zhang Lei), an independent party to the Project Company.
- The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

APPENDIX VII

PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Project Company as at 30 September 2012
Property	Description and occupancy	
18. A unit known as Room 101-1 of a building located No. 11 Wen Er Road Xihu District Hangzhou City Zhejiang Province The PRC	The property comprises a unit on Level 1 of a 5-storey composite building which was completed in about 1980. According to the information provided, the property has a gross floor area of approximately 20 sq. m. The property is rented to the Project Company for a term of 1 year from 14 May 2012 to 14 May 2013 at an exclusive annual rental of RMB36,000. As advised by the management of the Company, the property was occupied by the Project Company for sales office purpose.	No Commercial Value

Notes:

- The lessor of the property is 周中堯 (translated as Zhou ZhongYao), an independent party to the Project Company.
- The lessee of the property is Zhejiang Anxian Yuan Company Limited (浙江安賢陵園有限責任公司).

B. PROPERTY INTERESTS OF THE GROUP



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors LimitedPROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL ASSETS VALUER

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standard 2011 (the “IVS”) published by the International Valuation Standards Council as well as the HKIS Valuation Standards on Properties, First Edition, 2005 (the “HKIS Standards”) published by the Hong Kong Institute of Surveyors (the “HKIS”). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader’s identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitution to this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
Nos. 287-291 Des Voeux Road Central
Hong Kong

28 November 2012

The Board of Directors
China Boon Holdings Limited
Room 2118
Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of China Boon Holdings Limited (hereinafter referred to as the “Company”) to us to report certain property interests rented by the Company or its subsidiaries (collectively, hereinafter referred to as the “Group”) in the People’s Republic of China (hereinafter referred to as the “PRC” or “China”) and in Hong Kong, we confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary to support our findings of the property interests as at 30 September 2012 (hereinafter referred to as the “Relevant Date”) for the Company’s internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) will form part of the Company’s due diligence but we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision regarding the subject properties. Our work is designed solely to provide information that will give a reference to the management of the Company as part of its due diligence process, and our work should not be the only factor to be referenced by the management of the Company.

REPORTING OF CERTAIN RENTED PROPERTY INTERESTS IN GROUPS I AND II

Properties in Groups I and II are subject to various leasehold arrangements, and we have assigned no commercial value to such property interests due mainly to the short-term nature of the tenancy agreements or prohibition against assignment or sub-letting or lack of substantial profit rents.

MATTERS THAT MIGHT AFFECT THE FINDINGS REPORTED

For the sake of this engagement, we have adopted the areas as appeared in the copies of the documents as provided and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve rights to revise our report and the valuation accordingly.

No allowance has been made in the properties reviewed. Unless otherwise stated, it is assumed that the property is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

As at the Latest Practicable Date of this circular, we were unable to identify any adverse news against the properties which may affect the reported findings in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Relevant Date, we reserve the right to adjust the findings reported herein.

ESTABLISHMENT OF TITLES

Based on the purpose of this engagement, the management of the Company provided us copies of tenancy agreements to support that the legally interested party in the properties, i.e. the Group, has free and uninterrupted rights to use the property interests free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed (if any). However, we have not inspected the original documents to verify ownership and encumbrances, or to ascertain the existence of any amendment which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal titles and the rights (if any) to the subject properties. Any responsibility for our misinterpretation of the documents cannot be accepted.

The land registration system of China forbids us to search the original documents of the properties that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us.

We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties.

In our report, we have assumed that the Group has obtained all the approval and/ or endorsement from the relevant authorities to use the subject properties, and that there would be no legal impediment (especially from the regulators) for the Group to continue the legal rights to the subject properties. Should this not be the case, it will affect our findings in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

**INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH
VALUATION STANDARD 4 OF THE HKIS STANDARDS**

We have conducted inspections to the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of this engagement. The inspections were conducted by our team member, Mr Gary Yu and Sr Elsa Ng during the period of October 2012 to November 2012. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in a reasonable condition. We cannot express an opinion about or advice upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the building utilities (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our work has been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspections and the use of this report do not purport to be a building survey of the properties. We have also assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and official layout plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to work did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the properties that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the properties, or has since been incorporated, and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this engagement, we have assumed that such investigation would not disclose the presence of any such material to any significant extent.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VALUATION STANDARD 5 OF THE HKIS STANDARDS

In the course of our work, we have been provided with copies of the documents regarding the properties such as copies of tenancy agreements, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures did not require us to conduct any searches or inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not legal professional, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company.

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, rental, letting, occupation, site and floor areas and all other relevant matters.

The scope of work has been determined by reference to the property list provided by the management of the Company. All properties on the list have been included in our scope of work. The management of the Company has confirmed to us that the Group has no property interest other than those specified on the list supplied to us.

Our work has been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our report.

When we adopted the work products from other professions, external data providers and the management of the Company in our works, the assumptions and caveats that adopted by them in arriving at their figures also apply in this report. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or its appointed personnel. Also, we have sought and received confirmation from the management of the Company that no material factors have been omitted from the information supplied. Our analysis is based upon full disclosure between us and the management of the Company of material and latent facts that may affect our work.

We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or its appointed personnel. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Hong Kong Dollars (“HK\$”).

LIMITING CONDITIONS IN THIS REPORT

Our findings of the properties in this report are valid only for the stated purpose and only for the Relevant Date, and for the sole use of the instructing party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and the valuer accepts no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and local government policy and no obligation is assumed to revise this report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular for the Company's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

It is agreed that the Company and the instructing party are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

The attached summary of values and valuation certificate are prepared in line with the requirements contained in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in both the IVS and HKIS Standards. The work has been undertaken by professional surveyor (see End Note), acting as external valuer, qualified for the purpose of this engagement.

We retain a copy of this report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the instructing party’s authorisation and prior arrangement made with us. Moreover, we will add the Company’s information into our client list for our future reference.

The analysis of the properties depends solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported findings significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no significant interest in the properties, the Company, the Group or the findings reported.

Our findings are summarised below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui
B.Sc. M.Sc. RPS(GP)
Director

Ms Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 13 years of experience in valuing properties in mainland China. She is a Member of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

APPENDIX VII

PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

SUMMARY OF VALUES

Group I – Properties occupied by the Group under various operating leases in Hong Kong	
Property	Amount of valuation in its existing state attributable to the Group as at 30 September 2012 HK\$
1. Room 2118 on 21st Floor Leighton Centre 77 Leighton Road Causeway Bay Hong Kong	No Commercial Value
2. Suites 3908-11 39th Floor Shell Tower Times Square No. 1 Matheson Street Causeway Bay Hong Kong	No Commercial Value
	Sub-total: Nil
Group II – Property occupied by the Group under an operating lease in the PRC	
3. Unit 2003 on Level 20 Shanghai Industrial Investment Building No. 18 North Caoxi Road Xujiahui District Shanghai The PRC	No Commercial Value
	Sub-total: Nil
	Grand Total Nil

VALUATION CERTIFICATE

Group I – Properties occupied by the Group under various operating leases in Hong Kong

		Amount of valuation in its existing state attributable to the Group as at 30 September 2012
Property	Description and occupancy	
1. Room 2118 on 21st Floor Leighton Centre 77 Leighton Road Causeway Bay Hong Kong	The property comprises an office unit on the 21st Floor of an 18-storey office building erected over a 9-storey carpark and commercial podium (including basement) which was completed in approximately 1976. According to the information made available to us, the property has a lettable gross floor area of approximately 1,072 sq. ft. (99.6 sq. m.). The property is rented to the Company for a term of 3 years commencing from 3 January 2012 to 2 January 2015 at a monthly rental of HK\$38,592 exclusive of rates and operating charges. The property is currently occupied by the Group for office purpose.	No Commercial Value

Notes:

1. The registered owner of the property is Leighton Property Company Limited, an independent third party to the Group.
2. The lessee of the property is China Boon Holdings Limited.

APPENDIX VII

PROPERTY VALUATION REPORT OF

THE ENLARGED GROUP

		Amount of valuation in its existing state attributable to the Group as at 30 September 2012
Property	Description and occupancy	
2. Suites 3908-11 39th Floor Shell Tower Times Square No. 1 Matheson Street Causeway Bay Hong Kong	The property comprises 4 adjoining office units on the 39th Floor of a 26-storey office building (one of the twin-towers) erected over a 14-storey commercial podium plus 6 levels of basement which was completed in approximately 1993. According to the information made available to us, the property has a total gross floor area of approximately 4,602 sq. ft. (427.5 sq. m.). The property is rented to the Company for a term of 3 years commencing from 10 March 2011 to 9 March 2014 at a monthly rental of HK\$230,100 exclusive of rates and management fee. The property is currently vacant.	No Commercial Value

Notes:

- The registered owner of the property is Times Square Limited, an independent third party to the Group.
- The lessee of the property is Vision Tech International Holdings Limited, which was subsequently renamed as China Boon Holdings Limited.

APPENDIX VII

PROPERTY VALUATION REPORT OF
THE ENLARGED GROUP

Group II– Property occupied by the Group under an operating lease in the PRC

		Amount of valuation in its existing state attributable to the Group as at 30 September 2012
Property	Description and occupancy	
3. Unit 2003 on Level 20 Shanghai Industrial Investment Building No. 18 North Caoxi Road Xujiahui District Shanghai The PRC	The property comprises an office unit on Level 20 of a 40-storey office building plus one level of basement which was completed in approximately 1995. According to the information made available to us, the property has a gross floor area of approximately 228.14 sq. m. The property is rented to the Group for a term of 2 years from 1 February 2012 to 28 February 2014 at a monthly rental of RMB38,860 exclusive of management fee. The property is currently occupied by the Group for office purpose.	No Commercial Value

Notes:

1.

The lessor of the property is 左杰美 (translated as Zuo Jie Mei), an independent party to the Group.
2.

The lessee of the property is Sino Peace Enterprise Management & Service (Shanghai) Limited (中寧企業管理服務(上海)有限公司), a wholly-owned subsidiary of the Company.

APPENDIX VIII

REPORT ON FORECASTS UNDERLYING THE VALUATION OF THE PROJECT COMPANY

As the valuation report set out in Appendix VI of this circular is based on discounted cash flow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, on the discounted future estimated cash flows in connection with the valuation of the Project Company for the purpose of incorporation in this circular.



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25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

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www.bdo.com.hk

香港干諾道中111號
永安中心25樓

28 November 2012

The Directors
China Boon Holdings Limited
Room 2118, Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

Dear Sirs,

China Boon Holdings Limited

**DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE
BUSINESS VALUATION ON THE PROJECT COMPANY**

INDEPENDENT ASSURANCE REPORT

In accordance with our agreed terms of engagement, we have examined the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying a project to be comprised of cemetery business (the “Project”) as of 30 June 2012 (hereinafter referred to as the “Underlying Forecast”) as set out in Appendix VI “Valuation Report on the Project Company” to the circular of China Boon Holdings Limited (the “Company”) dated 28 November 2012 (the “Circular”) which is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

RESPONSIBILITIES

The directors of the Company (the “Directors”) are responsible for the preparation of the Underlying Forecast and the reasonableness and validity of the assumptions based on which the Underlying Forecast are prepared (the “Assumptions”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the Underlying Forecast for the valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

It is our responsibility to form a conclusion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast and to report our conclusion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B to the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work. Because the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events as detailed in Appendix VI to the Circular and management actions that cannot be confirmed and verified in the same way as past results. These Assumptions may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. Accordingly, we have not reviewed, considered or concluded any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

BASIS OF CONCLUSION

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants. We have examined the arithmetical accuracy of the calculations of the Underlying Forecast. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation on the Project Company.

CONCLUSION

In our opinion, so far as the arithmetical accuracy of the calculations is concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions made by the Directors as set out in Appendix VI to the Circular.

Yours faithfully,

BDO Limited

As the valuation report set out in Appendix VI of this circular is based on discounted cash flow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter from the Board on such valuations for the purpose of incorporation in this circular.

(B) LETTER FROM THE BOARD

28 November 2012

To the shareholders

Dear Sirs,

China Boon Holdings Limited (the “Company”)

We refer to the valuation report dated 28 November 2012 prepared by LCH (Asia-Pacific) Surveyors Limited in relation to the valuation report (the “Valuation”) on the going concern basis of operating a cemetery business of the Project Company as at 30 June 2012.

We understand that according to Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Valuation is regarded as a profit forecast (the “Profit Forecast”).

We have considered the report from BDO dated 28 November 2012 addressed to the board of directors of the Company regarding whether the Valuation was complied properly so far as the calculations are concerned.

We are of the opinion that the Valuation has been properly stated and confirm that the Profit Forecast have been made by the directors of the Company after due and careful enquiry.

Yours faithfully,
For and on behalf of the Board
China Boon Holdings Limited
Law Fei Shing
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 respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following the issue and allotment of the Consideration Shares will be, as follows:

As at the Latest Practicable Date

<i>Authorised share capital:</i>		Amount <i>HK\$</i>
<u>10,000,000,000</u>	Shares	<u>1,000,000,000</u>
<i>Issued and fully paid share capital:</i>		
<u>2,720,622,600</u>	Shares	<u>272,062,260</u>

Immediately following Completion and conversion of the Convertible Notes

<i>Issued and fully paid share capital:</i>		Amount <i>HK\$</i>
2,720,622,600	Shares as at the Latest Practicable Date	272,062,260
885,888,104	Conversion Shares	
	(assuming conversion restriction applies)	
<u> </u>		<u>88,588,810.40</u>
<u>3,606,510,704</u>	Shares of HK\$0.1 each	<u>360,651,070.40</u>

All the issued shares in the capital of the Company rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Conversion Shares to be converted will, when converted, rank pari passu in all respects with the then existing Shares in issue on the date of their conversion. The Company had no debt securities in issue as at the Latest Practicable Date.

Share options

As at the Latest Practicable Date, the Company had granted options to certain directors, employees and third parties to subscribe for an aggregate of 334,162,260 Shares under the share option scheme of the Company.

Grantees		Exercise price (HK\$)	Options
Directors	(i)	0.604	16,000,000
	(ii)	0.435	3,000,000
	(iii)	0.415	1,900,000
	(iv)	0.101	97,000,000
Employees	(i)	0.604	2,000,000
	(ii)	0.435	8,500,000
	(iii)	0.415	10,700,000
	(iv)	0.101	18,000,000
Third parties	(i)	0.435	20,000,000
	(ii)	0.415	45,000,000
	(iii)	0.101	112,062,260
			334,162,260

Below is the movement of the outstanding share options granted:

	Options
Outstanding at 1 April 2012	401,262,260
Granted	—
Cancelled	(67,000,000)
Outstanding at Latest Practicable Date	334,162,260

Save as disclosed in this circular, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors or chief executives of the Company in the Shares and the underlying shares of the Company and any of 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 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 maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long positions in Shares at the Latest Practicable Date:

Name of Director	Capacity	Number of Shares held	Approximate % of interest held
Mr. Shi	Beneficial interests	65,000,000	In total 3.38%
	Beneficial interests (<i>Note</i>)	27,000,000	
Shi Jun	Beneficial interests	95,000,000	In total 4.48%
	Beneficial interests (<i>Note</i>)	27,000,000	
Law Fei Shing	Beneficial interests	20,000,000	In total 1.73%
	Beneficial interests (<i>Note</i>)	27,000,000	
Shen Mingzhen	Beneficial interests	95,000,000	In total 4.48%
	Beneficial interests (<i>Note</i>)	27,000,000	
Qi Xing Gang	Beneficial interests (<i>Note</i>)	2,000,000	0.07%
Yu Ping	Beneficial interests (<i>Note</i>)	3,900,000	0.14%
Tang Yan	Beneficial interests (<i>Note</i>)	2,000,000	0.07%
Lau Siu Ngor	Beneficial interests (<i>Note</i>)	2,000,000	0.07%

Notes:

These interests represent the Shares which might be allotted and issued to the Directors upon the exercise in full of the options granted to them pursuant to the share option scheme of the Company adopted on 18 July 2008.

Apart from the above, as at the Latest Practicable Date, there were no interest of the Directors or chief executives of the Company in the Shares and the underlying shares of the Company and any of 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 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 maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

4. SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31 March 2012, the Company had not been notified of any substantial shareholders' interests, being 5% or more of the Company's shares and underlying shares, other than that of the Directors and Mr. Shi.

As far as the Directors are aware, no other person had an interest or short position in the Company's shares or underlying shares which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

5. DIRECTORS' SERVICE CONTRACTS

Mr. Shi, Mr. Law Fei Shing, Mr. Yu Ping, Dr. Qi Xing Gang and Mr. Fu Xiao Dong have entered into a service contract with the Company for a period of one year from 20 June 2011, 10 June 2009, 17 August 2010, 1 August 2011 and 1 April 2012 respectively and will continue thereafter unless and until terminated by either party by not less than three months' prior notice. Each of Ms. Shen Mingzhen, Mr. Shi Jun, Ms. Tang Yan and Ms. Lau Siu Ngor has entered into a service contract with the Company for a period of one year from 15 December 2011 and will continue thereafter unless and until terminated by either party by not less than three months' prior notice.

Save as disclosed in this circular, none of the Directors have entered into any service contracts with the Enlarged Group or any of its subsidiaries or associated companies which are:

- (i) continuous contracts with a notice period of 12 months or more; or
- (ii) fixed term contracts with more than 12 months to run irrespective of the notice period.

6. LITIGATION

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

7. MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular, the following agreements, being contracts not entered into in the ordinary course of business, have been entered into by members of the Enlarged Group and is or may be material:

- (a) an amended and restated sale and purchase agreement dated 30 November 2010 made between Mr. Fu Yuan Ji as vendor and Sino Grandeur Limited (a wholly-owned subsidiary of the Company) as purchase for the acquisition of the entire issued share capital of Topace Investments Limited by Sino Grandeur Limited at the total consideration of HK\$1,150,000,000;
- (b) a placing agreement dated 28 March 2011 made between the Company as issuer and Kingsway Financial Service Group Limited and Emperor Securities Limited as placing agents in relation to a proposed placing of a maximum of 165,000,000 Shares to not less than six placees at a price of HK\$0.38 per placing share;
- (c) a sale and purchase agreement dated 30 September 2011 made between Lin Shijie, Zhou Siwei, Jin Chaoping, Zhou Qian and Liu Chaobin as vendors and the Company as purchaser in relation to (1) the acquisition of 43.35% equity interest of 重慶白塔園殯葬有限公司 (“白塔園”) (in English, for identification purpose, Chongqing Bai Ta Yuan Funeral Services Company Limited) at a total consideration of RMB66,800,000; and (2) the injection of a further sum of RMB30,000,000 as capital of 白塔園 and of RMB40,000,000 as shareholder’s loan;

- (d) a placing agreement dated 10 January 2012 made between the Company as issuer and Orient Securities Limited as placing agent in relation to a proposed placing of a maximum of 450,000,000 Shares to not less than six placees at a price of HK\$0.11 per placing share; and
- (e) the Agreement.

8. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Enlarged Group or have or may have any other conflicts of interest with the Enlarged Group pursuant to the Listing Rules.

9. INTEREST OF DIRECTORS IN ASSETS

Save as previously disclosed that the Vendor is legally and beneficially owned by Mr. Shi, the chairman, chief executive officer, executive director and shareholder of the Company, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had 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 since the date to which the latest published audited consolidated financial statements of the Company were made up.

10. CONTRACTS OR ARRANGEMENTS WHICH DIRECTORS ARE MATERIALLY INTERESTED AND ARE SIGNIFICANT IN RELATION TO THE BUSINESS OF THE GROUP

As at the Latest Practicable Date, there were no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Enlarged Group.

11. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in the circular or have given opinions or letters contained in this circular:

Name	Qualifications
BDO Limited	Certified Public Accountants, Hong Kong
Guangxin Lawyers	Qualified PRC Legal Adviser
LCH (Asia-Pacific) Surveyors Limited	Independent Professional Surveyor
Octal Capital Limited	Independent Financial Adviser

Each of BDO Limited, Guangxin Lawyers, LCH (Asia-Pacific) Surveyors Limited and Octal Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, none of BDO Limited, Guangxin Lawyers, LCH (Asia-Pacific) Surveyors Limited and Octal Capital Limited was interested in any shareholding in any member of the Enlarged Group, nor did any of them have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Enlarged Group.

As at the Latest Practicable Date, none of BDO Limited, Guangxin Lawyers, LCH (Asia-Pacific) Surveyors Limited and Octal Capital Limited had any direct or indirect interests in any assets which had since 31 March 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up) 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.

12. MISCELLANEOUS

- (a)

The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

- (b) The company secretary of the Company is Mr. Law Fei Shing. Mr. Law, aged 52, was appointed as an independent non-executive director of the Company on 4 June 2009 and was redesignated to executive director of the Company on 10 June 2009. He has been appointed as the company secretary of the Company from 22 July 2011. Mr. Law is a certified public accountant practicing in Hong Kong. He is also a member of American Institute of Certified Public Accountants (AICPA), USA and associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Law has over 22 years of experience in the audit and accounting services. Mr. Law was an independent non-executive director of New Times Group Holdings Limited (stock code: 166), the shares of which are listed on the Main Board of the Stock Exchange, for the period from September 2005 to October 2006; an executive director and company secretary of Heng Xin China Holdings Limited (stock code: 8046), the shares of which are listed on the Growth Enterprises Market Board of the Stock Exchange, for the period from June to October 2007; and an executive director (August 2004 to December 2011), the company secretary (August 2004 to May 2011) and the chief executive officer (November 2007 to December 2011) of Energy International Investments Holdings Limited (stock code: 353), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Law is currently an executive director and company secretary of Bestway International Holdings Limited (stock code: 718), the shares of which are listed on the Main Board of the Stock Exchange.
- (c) The head office and principal place of business of the Company in Hong Kong is situated at Room 2118, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong.
- (d) The principal share register of the Company is Butterfield Fulcrum Group (Bermuda) Limited at Rosebank Centre, 11 Bermudiana Road, Pembroke HM08 Bermuda.
- (e) The branch share registrar of the Company in Hong Kong is Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

13. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, they are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2012, the date to which the latest published audited consolidated financial statements of the Company were made up.

14. DOCUMENTS AVAILABLE FOR INSPECTION

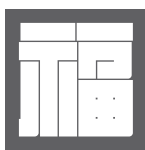
Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company which is situated at Room 2118, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong, for a period of 14 days from the date of this circular:

- (a) this circular;
- (b) the memorandum of association and bye-laws of the Company;
- (c) the published audited annual reports of the Company for two financial years ended 31 March 2011 and 31 March 2012;
- (d) the directors' service contracts referred to in the paragraph headed "Directors' Service Contracts" in this Appendix;
- (e) the contracts referred to in this circular including the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;
- (f) the accountants' reports of the Target Group and the Project Company, the texts of which are set out in Appendices III and IV of this circular;
- (g) the accountants' report issued by BDO Limited in connection with the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V of this circular;
- (h) the business valuation report on the Project Company, the text of which is set out in Appendix VI of this circular;
- (i) the property valuation of the Project Company, the text of which is set out in Appendix VII of this circular; and
- (j) the written consents of the experts as referred to in the paragraph headed "Experts and Consent" in this Appendix.

15. LANGUAGE

In the event of inconsistency, the English text of this circular will prevail over the Chinese text.

NOTICE OF SGM



CHINA BOON HOLDINGS LIMITED

中福控股發展有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00922)

NOTICE IS HEREBY GIVEN that a special general meeting of China Boon Holdings Limited (the “**Company**”) will be held at Room 2118, Leighton Centre, 77 Leighton Road, Causeway Bay, Hong Kong on Friday, 28 December 2012 at 11:00 a.m. to consider and, if thought fit, pass the following resolution, with or without amendments, as ordinary resolution of the Company:

“THAT

- (1) the sale and purchase agreement (the “**Agreement**”) (a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) dated 18 September 2012 entered into between the Company, Sino Grandeur Limited, Master Point Overseas Limited and Mr. Shi Hua, pursuant to which Sino Grandeur Limited conditionally agreed to acquire from Master Point Overseas Limited the entire issued share capital of Jia Yuan Trading Limited at a total consideration of HK\$430,000,000, which will be satisfied partly by cash and partly by the Company’s issue of the promissory note and the convertible notes as set out in the circular of the Company dated 28 November 2012 (the “**Circular**”) (copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder, be and hereby approved, confirmed and ratified;
- (2) the execution and issue of the Promissory Note and Convertible Notes (as both defined in the Circular), on and subject to the terms of the Agreement, be and hereby approved;
- (3) the directors of the Company be and are hereby authorised to issue the Conversion Shares (as defined in the Circular); and

* for identification purposes only

NOTICE OF SGM

- (4) the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents which in their opinion may be necessary or expedient to give effect to the terms of the Agreement and the issue and allotment of the Conversion Shares or any of the transactions contemplated under the Agreement.”

By order of the board of directors of
China Boon Holdings Limited
Law Fei Shing
Executive Director

Hong Kong, 28 November 2012

Notes:

1. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person duly authorised to sign the same.
2. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy need not be a registered shareholder of the Company.
3. In order to be valid, the form of proxy must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Ltd. at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint holders of any shares in the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.