THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

CROWN International

Crown International Corporation Limited
皇冠環球集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 727)

(1) VERY SUBSTANTIAL ACQUISITION AND (2) SPECIFIC MANDATE TO ISSUE NEW SHARES

Financial adviser to the Company

長江證券融資(香港)有限公司
CHANGJIANG CORPORATE FINANCE (HK) LIMITED

A notice convening the SGM to be held at Executive Boardroom, Business Centre, Level 7, Island Shangri-La, Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Monday, 23 February 2015 at 11:00 a.m. is set out on pages 103 to 104 of this circular.

Whether or not you propose to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same to the registered office of the Company at Suite 1603, 16th Floor, Central Plaza, 18 Harbour Board, Wanchai, Hong Kong, or at the Share Registrar of the Company, Boardroom Share Registrars (HK) Limited, at 31/F., 148 Electric Road, North Point, Hong Kong as soon as possible and in any event not later than 48 hours before the time for holding the SGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

3 February 2015

CONTENTS

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

"Acquisition"	the proposed acquisition of the Sale Shares of the Target Company pursuant to the Sale and Purchase Agreement
"Announcement"	the announcement of the Company dated 7 November 2014 in relation to the Acquisition
"associate(s)"	the same meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday or Sunday) on which banks are open for business in Hong Kong
"CAGR"	compound annual growth rate; CAGR=((value for ending year divided by value for beginning year) ^ (1/number of years between ending year and beginning year))-1
"Company"	Crown International Corporation Limited, a company incorporated in Hong Kong, whose shares are listed on the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
"Connected Person(s)"	the meaning ascribed to it under the Listing Rules
"Consideration"	the aggregate consideration of HK$1,008,000,000 payable by the Company to the Vendor for the Acquisition and which is to be satisfied as to HK$700,000,000 by cash payment, and the remaining HK$308,000,000 by the allotment and issue of Consideration Shares by the Company to the Vendor
"Consideration Shares"	440,000,000 Shares to be issued at HK$0.70 per Share by the Company to the Vendor
"Directors"	the director(s) of the Company

"Enlarged Group"	the Group as enlarged by the Acquisition
"GFA"	gross floor area
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party"	a person who, to the best of the directors' knowledge, information and belief having made all reasonable enquiry, is a third party independent of the Company and Connected Persons of the Company
"Last Trading Day"	31 October 2014, being the last trading day of the Shares prior to the release of the Announcement
"Latest Practicable Date"	2 February 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 March 2015 (or such later date as the Vendor and the Purchaser may agree in writing)
"PRC"	the People's Republic of China
"Property"	a residential and commercial complex located at No. 69, Zhongshan Third Road, Eastern District, Zhongshan City, which comprises 2 blocks of 28-storey residential buildings built over a 4-level retail podium and a 2-level basement, erected on a parcel of land with a registered site area of approximately 10,533 square meters
"Purchaser"	Crown International Resort Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC

"Sale and Purchase Agreement"	the Sale and Purchase Agreement dated 31 October 2014 (after trading hours) entered into between the Vendor and the Purchaser in relation to the Acquisition, as supplemented and amended by the Supplemental Sale and Purchase Agreement
"Sale Shares"	the entire issued share capital of the Target Company
"SGM"	the special general meeting to be convened and held by the Company to consider and, if thought fit, approving, among others, (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the proposed grant of specific mandate to allot and issue the Consideration Shares
"Shareholder(s)"	holders of existing Shares
"Share(s)"	ordinary shares of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Sale and Purchase Agreement"	an agreement dated 22 January 2015 (after trading hours) entered into between the Vendor and the Purchaser, being a supplemental agreement to the Sale and Purchase Agreement
"Target Company"	Zhongshan Hualian Industrial Development Co., Ltd.（中山市華聯實業開發有限公司）, a company incorporated in the PRC
"Vendor"	Sino Oasis Oversea Limited, a company incorporated in Samoa with limited liability
"%"	per cent.
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

Unless otherwise specified in this circular, amounts denominated in RMB have been translated into HK$ at the exchange rate of RMB1.00 = HK$1.26 for information purpose only. Such translation should not be construed as a representation that any amount in RMB has been, could have been or may be converted at the above rate or at all.

Crown International Corporation Limited
皇冠環球集團有限公司
(Incorporated in Hong Kong with limited liability)
(Stock code: 727)

Executive Directors
Mr. LIAO Pin Tsung
(Chairman of the Board and Group Chief Executive Officer)
Mr. MENG Jin Long

Non-executive Directors
Mr. LIU Hong Shen *(Vice Chairman)*

Independent non-executive Directors
Mr. LONG Tao
Mr. REN Guo Hua
Mr. CHEN Fang

Registered Office
Suite 1603, 16th Floor,
Central Plaza,
18 Harbour Road,
Wanchai,
Hong Kong

3 February 2015

To the Shareholders,

Dear Sir/Madam,

(1) VERY SUBSTANTIAL ACQUISITION
AND
(2) SPECIFIC MANDATE TO ISSUE NEW SHARES

INTRODUCTION

Reference is made to the announcements of the Company dated 7 November 2014, 31 December 2014 and 22 January 2015 in relation to, among others, the Acquisition.

On 7 November 2014, the Board announced that on 31 October 2014 (after trading hours) the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Purchaser has agreed to purchase and the Vendor has agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company at the Consideration, being HK$1,008,000,000, in which HK$700,000,000 will be satisfied by cash payment and the remaining HK$308,000,000, will be satisfied by the issuance and allotment of the Consideration Shares to the Vendor, at an issue price of HK$0.70 per Consideration Share. The principal asset of the Target Company is its direct 100% interest in the Property.

As one of the applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Listing Rules and will accordingly be subject to the requirements of reporting, announcement and the shareholders' approval requirements under Chapter 14 of the Listing Rules.

On 22 January 2015, the Board issued an announcement to give certain updates on the amended terms and conditions under the Sale and Purchase Agreement and to provide further information on the Vendor, the Target Company and the Property. Please refer to the sections headed "The Sale and Purchase Agreement" and "Information on the Vendor, the Target Company and the Property" below for details.

The purpose of this circular is to provide you with, among other things, (i) further information on the Acquisition; (ii) certain updates on amended terms and conditions under the Sale and Purchase Agreement; (iii) further information on the Vendor, the Target Company and the Property; (iv) financial information of the Group; (v) accountants' report on the Target Company; (vi) the unaudited pro forma financial information of the Enlarged Group; (vii) the property valuation report of the Property interest of the Target Company; and (viii) a notice of the SGM as required under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out as follows:

Date:

31 October 2014 (after trading hours)

Parties:

(i) Purchaser: Crown International Resort Limited, which is an indirect wholly-owned subsidiary of the Company

(ii) Vender: Sino Oasis Oversea Limited

The Vendor is Sino Oasis Oversea Limited, which is an investment holding company incorporated in Samoa with limited liability. As at the Latest Practicable Date, Sino Oasis Oversea Limited is held as to 30% by Best Plus Ventures Limited ("BPVL") (ultimate beneficial owner of which being Mr. Chau Cheok Wa), as to 35% by Advanced Bonus Limited ("ABL") (ultimate beneficial owner of which being Mr. Shi Jun) and as to 35% by Luckwell Limited ("LL") (ultimate beneficial owner of which being Mr. Wei Zhenming). Each of BPVL, ABL and LL is an investment holding company incorporated in the British Virgin Islands.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor, each of BPVL, ABL, LL and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Asset to be acquired

The Sale Shares, representing the entire issued capital of the Target Company.

The Consideration

The Consideration of the Acquisition shall be HK$1,008,000,000, in which HK$700,000,000 will be satisfied by cash payment and the remaining HK$308,000,000 will be satisfied by the allotment and issue of the Consideration Shares.

Payment terms and basis for Consideration

The Consideration shall be payable by the Purchaser to the Vendor in the following manner:

(i) as to HK$75,600,000 by cash within 10 Business Days immediately after the Sale and Purchase Agreement takes effect;

(ii) as to HK$12,200,000 by cash within one year after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived by the Purchaser;

(iii) as to HK$12,200,000 by cash between one and two years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived by the Purchaser;

(iv) as to HK$600,000,000 by cash between two and three years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived by the Purchaser; and

(v) as to HK$308,000,000 by the allotment and issue of the Consideration Shares immediately after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived by the Purchaser.

As at the Latest Practicable Date, HK$75,600,000 has been paid by the Purchaser to the Vendor.

According to the unaudited financial information of the Group for the six months ended 30 September 2014, the Group has bank balances and cash of HK$18,551,000. On 29 October 2014, the Company conducted one fund raising activity, raising net proceeds of HK$230,281,358. On 30 October 2014, the Company has early redeemed the promissory notes from Crown Landmark Corporation, the ultimate holding company, with principal amount of HK$120,000,000 and the accrued interests of HK$1,200,000. Together with the above-mentioned bank balances and cash of HK$18,551,000 as at 30 September 2014, the Company has a maximum of HK$127,632,358 available to settle partial cash consideration out of aggregate cash consideration of HK$624,400,000. The Company currently intends to issue convertible bonds as one of the fund raising alternatives to raise additional capital to settle the shortfall of cash consideration of HK$496,767,642 in the near future taken into account that it can release cashflow pressure of the Group, without using its existing cash resources for funding. In addition, the interest rate carried by convertible bonds usually carries a lower rate than the market borrowing rate. As at the Latest Practicable Date, the Company is not in any discussion or negotiation for fund raising (including equity or debt) arrangement. However, the Company will decide the source of fund (i.e. (i) equity financing through placing of new Shares, rights issues or open offer of the Company; or (ii) debt financing through issuing debentures, notes or convertible notes) after considering its liquidity, cash on hands and leverage level at the relevant time. The Board will ensure the decisions of sources of fund are in the benefits of the Company and the Shareholders.

As most of the outstanding cash consideration will only be due between 2017 and 2018 (i.e. between two and three years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived by the Purchaser), the Board considers that the immediate repayment pressure on the Company is not substantial. Having considered that the benefits as stated in the section headed "Reasons for and benefits of the Acquisition", which the Board believes will have good profitability in the long run, and therefore can enhance the Company's financial position as a result. Thus, the Board contemplates that the Company's liquidity and financial position will improve in the coming years and the Company will be able to meet its financial commitments in the outstanding cash consideration. Please also refer the sub-section headed "Risks relating to the business– Inability to obtain additional financing, if and when needed" under the section headed "Risk Factors relating to the Acquisition" below for details.

The Consideration Shares will be issued as fully paid and shall rank pari passu in all respects with the ordinary Shares in issue on the date of allotment and issue thereof, save in respect of any distribution or other corporate action the record date for which falls before the date of allotment and issue thereof. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The issue price of HK$0.70 per Consideration Share represents (i) a discount of approximately 24.73% to the closing price of HK$0.930 per Share on the Last Trading Day; (ii) a discount of approximately 21.70% to the average closing price of HK$0.894 per Share for the last 5 trading days up to and including the Last Trading Day; (iii) a discount of approximately 18.70% to the average closing price of HK$0.861 per Share for the last 10 trading days up to and including the Last Trading Day; (iv) a discount of approximately 14.43% to the average closing price of HK$0.818 per Share for the last 30 trading days up to and including the Last Trading Day; and (v) a discount of approximately 43.09% to the closing price of HK$1.230 per Share on the Latest Practicable Date.

The Board noted that the price of Shares had been trading within the range of HK$0.160 to HK$1.01 over the past 12 months up to and including the Last Trading Day (i.e. 1 November 2013 to 31 October 2014) and started to increase to more than HK$0.70 per Share from 19 August 2014 and up to the Latest Practicable Date. The Board confirmed that they are not aware of any reasons for such increase in Share price movement.

Taken into account of the tight financial position that the Company was facing for the financial year ended 31 March 2013 and 31 March 2014, the Company, has upon arm's length negotiation, agreed with the Vendor that the issue price per Consideration Share at HK$0.70 should represent a discount to the closing price on the Last Trading Day (without regard to the recent surge in the price of the Shares), so that the consideration for the Consideration Shares could be settled to relief cashflow pressure to the Group while ascertaining the Acquisition. Based on the above, the Board considers that the issue price per Consideration Share at HK$0.70 is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Consideration Shares to be issued to the Vendor will represent (i) approximately 20.37% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 16.92% of the issued share capital of the Company as enlarged by the issuance and allotment of the Consideration Shares. The Consideration Shares are to be issued and credited as fully paid, will rank pari passu in all respects with the existing Shares in issue.

Despite the Consideration is higher than the net asset value of the Target Company on a historical cost basis as at 31 October 2014, in determining the Consideration, importance is attached by the Directors to among other things, (i) the fair value of the Property on a completion basis of RMB1,245.00 million (equivalent to approximately HK$1,568.70 million), as per valuation performed by Peak Vision Appraisals Limited, an independent valuer (the "Valuer") as at 31 December 2014; (ii) the book value of properties under development comprises mainly construction expenditure incurred up to 31 October 2014; (iii) the fair value of the Property does not take into consideration the amount of approximately RMB83.92 million (equivalent to approximately HK$105.74 million) (the "Remaining Liabilities"), which is calculated based on the unaudited total liabilities of the Target Company of RMB237.17 million (equivalent to approximately HK$298.83 million) as at 31 October 2014 minus the amount due to shareholders of the Target Company to be borne by the Enlarged Group of approximately RMB153.25 million (equivalent to approximately HK$193.10 million) as at 31 October 2014, and the future capital expenditure, other financial commitment and encumbrances required for the actual completion of the Property (together the "Actual Completion Costs"), which shall be borne by the Vendor pursuant to the Supplemental Sale and Purchase Agreement; (iv) the Consideration (i.e. cost of acquisition) of the Property is HK$1,008,000,000, representing a discount of approximately 26.72% to the fair value of the Property on a completion basis assuming free from encumbrances as at 31 December 2014 minus the amounts due to shareholders of the Target Company to be borne by the Enlarged Group as at 31 October 2014; (v) the future prospects of the real estate market in Zhongshan City, the PRC; (vi) the terms and conditions of the Sale and Purchase Agreement; and (vii) the quality and size of the Property held by the Target Company. The Valuer has applied the direct comparison approach assuming sale of property interest as if completed, with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. A valuation report of the Property performed by the Valuer as at 31 December 2014 is set out in Appendix IV of this circular. In light of the above and taking into account the Consideration was determined between the Company and the Vendor after arm's length negotiations and on normal commercial terms, the Directors consider that the Consideration to be attractive, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Based on the aforesaid, the Directors consider that the terms and conditions of the Acquisition, including the Consideration, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Costs which shall borne by the Vendor before the Long Stop Date

Pursuant to the Sale and Purchase Agreement, (a) the Remaining Liabilities, which is calculated based on the unaudited total liabilities of the Target Company of RMB237.17 million (equivalent to approximately HK$298.83 million) as at 31 October 2014 minus the amount due to shareholders of the Target Company to be borne by the Enlarged Group of approximately RMB153.25 million (equivalent to approximately HK$193.10 million) as at 31 October 2014; (b) the Actual Completion Costs; (c) the interest amount and compensation amount due to the relevant buyers and 佛山市優越百貨管理有限公司 (Foshan Youyue Department Store Management Limited) ("Youyue Department Store") to be incurred before 31 March 2015 (or such later date as the Vendor and the Purchaser may agree in writing) (the "Long Stop Date"); and (d) any expenses, penalties and damages incurred by the Target Company arising from any non-compliance with relevant laws and regulations including but not limited to social security and housing provident fund contributions for employees shall be borne by the Vendor before the Long Stop Date. In the event that the Vendor fails to settle the aforesaid before the Long Stop Date, the Purchaser shall then offset by the last cash payment of HK$600,000,000, which is due between two to three years after all conditions precedent set out in the Sale and Purchase Agreement are fulfilled or waived.

Conditions precedent

Completion of the Acquisition is conditional upon, among other things, the fulfillment (or waiver by the Purchaser) of the following conditions:

(i) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares;

(ii) the passing of resolutions by the Shareholders at the SGM approving the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to allotment and issue of the Consideration Shares;

(iii) the Vendor having obtained all necessary approvals, authorizations, consents from and completed all necessary registrations and filings (if applicable) (together the "PRC Approvals") and with the relevant governmental authorities or regulatory bodies (including but not limited to governmental authorities or regulatory bodies in the PRC) in respect of the Sale and Purchase Agreement;

(iv) the Target Company has obtained the approval for 竣工及驗收 (completion and acceptance) for the Property in accordance with relevant laws and regulations;

(v) the Target Company has terminated relevant sales contracts and lease agreement with respect to the Property;

(vi) the warranties given by the Vendor under the Sale and Purchase Agreement remaining true, correct and not misleading in all material respects on or before Completion;

(vii) the Purchaser being reasonably satisfied with the results of the due diligence review of the business, operations, legal and financial position of the Target Company pursuant to the Sale and Purchase Agreement; and

(viii) the Purchaser being satisfied that there are no circumstances, facts or situation constituting or possibly constituting a breach of Vendor's warranties contained in the Sale and Purchase Agreement and the Vendor having complied with all of its respective obligations under the Sale and Purchase Agreement.

The above conditions (i) to (iii) cannot be waived. As at the Latest Practicable Date, condition (vii) has been fulfilled, and the Purchaser has no intention to waive conditions (iv), (v), (vi) and (viii) above. The parties to the Supplemental Sale and Purchase Agreement have agreed that some of the conditions are capable of being waived except for conditions (i) to (iii), as a matter of practicality and to provide the Purchaser with the flexibility to proceed to Completion even if some of the conditions are not fulfilled in full. Conditions (i) to (iii) relate to requirements of the Listing Rules and other legal requirements with which the Company or the Target Company must comply. None of the conditions which is capable of being waived under the Supplemental Sale and Purchase Agreement is a regulatory or legal requirement which is applicable to the Company and therefore it is for the parties to the Supplemental Sale and Purchase Agreement to agree commercially on how to deal with them.

In any event, when exercising the right to waive a condition, the Purchaser will only waive a condition and proceed to Completion only if the Purchaser is satisfied that waiver of such conditions(s) will not affect the substance of the Acquisition and/or adversely affect the financial position or operations of the Group.

If any of the above conditions precedent is not fulfilled or waived in writing by the Purchaser on or before the Long Stop Date, the Purchaser may terminate the Sale and Purchase Agreement, in which case none of the parties shall have any claim against the others for costs, damages, compensation or otherwise and the Vendor shall within 3 Business Days after demand refund the full amount of HK$75,600,000 cash payment to the designated account of Purchaser upon the Purchaser's written notice to the Vendor. As at the Latest Practicable Date, conditions (iv), (v), (vi) and (viii) have not been fulfilled.

Taking into account the above conditions can be fulfilled (or waiver, as the case maybe) by the Purchaser before the Long Stop Date, and particularly, as advised by the Vendor, approximately 97% GFA of the Property has been completed as at the Latest Practicable Date and the process of obtaining of the PRC Approvals is underway, the Board does not foresee any difficulties for the completion of the Property, as well as obtaining the PRC Approvals before the Long Stop Date.

Completion

Completion for the allotment and issue of Consideration Shares to the Vendor will take place on any day within 15 Business Day after all conditions precedent to the Sale and Purchase Agreement have been satisfied or waived (except for (i) to (iii) above) by the Purchaser (or such other time and date as the parties to the Sale and Purchase Agreement may agree). Immediately after issue of the Consideration Shares, the Vendor shall transfer such Consideration Shares to each of BPVL, ABL and LL in proportion of their respective shareholding in the issued share capital of the Vendor. BPVL, ABL and LL will own 132,000,000 Shares, 154,000,000 Shares and 154,000,000 Shares, representing approximately 5.08%, 5.92% and 5.92%, respectively of the enlarged issued share capital of the Company.

In addition, upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Group.

SPECIFIC MANDATE

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. Pursuant to the Sale and Purchase Agreement, as part of the Consideration, the Company shall issue the Consideration Shares to the Vendor upon Completion. The Company will seek the grant of a specific mandate at the SGM for the allotment and issue of the Consideration Shares.

INFORMATION OF THE PURCHASER AND THE GROUP

The Purchaser is an indirect wholly-owned subsidiary of the Company and its principal activity is property investment. The principal activities of the Group are hotel investment and property investment. According to the annual report of the Company dated 31 March 2014, the Group entered into equity transfer agreements with independent third parties to dispose of the entire equity interest in its subsidiaries holding the hotel properties in Wafangdian, Tonghua, Wuhan and Jinggangshan, respectively. As at the Latest Practicable Date, disposal of the hotel properties in Wuhan, Tonghua and Wafangdian has been completed and Jinggangshan has not been completed, either pending approval of the relevant authorities or settlement of final payment by the relevant purchaser. The completion date for the disposal of Jinggangshan property is uncertain. The Company will closely monitor the status aiming at completing disposal of Jinggangshan property as soon as possible. Assuming disposal of the hotel property in Jinggangshan has been completed, the Group has three properties in Yingkou, Weifang and Ninghai, the PRC in its property portfolio through "U" Inns & Hotels Holdings Limited as at the Latest Practicable Date.

INFORMATION ON THE VENDOR, THE TARGET COMPANY AND THE PROPERTY

The Vendor is an investment holding company incorporated in Samoa with limited liability. As at the Latest Practicable Date, the Vendor is held as to 30% by BPVL (ultimate beneficial owner of which being Mr. Chau Cheok Wa), as to 35% by ABL (ultimate beneficial owner of which being Mr. Shi Jun) and as to 35% by LL (ultimate beneficial owner of which being Mr. Wei Zhenming). Each of the BPVL, ABL and LL is a company incorporated in the British Virgin Islands and is an investment holding company.

The Target Company is a company incorporated in the PRC with limited liability and owned as to 100% by the Vendor. It is an investment holding company and does not have any business other than its investment in the Property.

As at 31 October 2014, the Target Company has 7 employees but no employment contracts were signed with them. As at the Latest Practicable Date, the Target Company has not paid certain social security and housing provident fund contributions for the 5 employees and with the other 2 employees have been retired. As advised by the Company's PRC legal adviser, based on their understanding and enquiry with the 中山市人力資源和社會保障局 (Zhongshan Human Resources and Social Security Bureau) and 中山市住房公積金管理中心 (Zhongshan Housing Provident Fund Management Center), staff who reaches statutory retirement age does not fall within the definition of "employees" under the PRC Social Security Law and the Regulations on Management of Housing Provident Fund Law. Given that the 2 retired employees have already reached the statutory retirement age at the time they joined the Target Company as employees, therefore, the Target Company is not required to pay the relevant social securities and housing provident fund for these 2 retired employees accordingly. As advised by the Target Company's PRC legal adviser, the Target Company may be ordered by the relevant PRC authorities to pay additional wages or economic compensation to staffs for their past employment, as well as relevant social security, housing provident fund contributions and overdue fine within a stipulated deadline. In accordance with the Supplemental Sale and Purchase Agreement, the Vendor shall reimburse the Target Company for any expenses, penalties and damages incurred by the Target Company arising from any non-compliance with relevant laws and regulations before the Long Stop Date, including but not limited to social security and housing provident fund contributions for the 5 employees. The Company's PRC legal adviser advised that pursuant to Article 10 of Regulations on Social Basic Pension Insurance of Guangdong Province provides that "*The employment units shall pay the pension insurance in the amount of the average monthly salary of the insured in the previous year times a certain ratio*". In addition, pursuant to Article 16 and Article 18 of the Regulations on Management of Housing Provident Fund, "*The housing provident fund paid and deposited by the employment unit each month for a worker or staff shall be the amount of the average monthly salary of the worker or staff in the previous year times the payment and deposit ratio of housing provident fund of the unit*" and "*The payment and deposit ratio of housing provident fund of the employment unit shall be not less than 5% of the monthly average salary in the previous year*", respectively. According to the website of 中山市社會保險基金管理局 (Zhongshan Social Insurance Fund Management Bureau) (www.gdzs.si.gov.cn), the aggregate contributions for social security by employers are approximately 14.00%. Based on the above, the maximum liabilities for the non-compliance with relevant rules and regulations, including social security (together with overdue penalties) and housing provident fund contributions for the 5 employees are estimated to be approximately RMB0.24 million (equivalent to approximately HK$0.30 million) as at 31 October 2014. Such maximum liabilities include the amount of non-compliance fees for social security (together with overdue penalties) of approximately RMB0.19 million (equivalent to approximately HK$0.24 million) as at 31 October 2014 and housing provident fund contributions of RMB0.05 million (equivalent to approximately HK$0.06 million) as at 31 October 2014, respectively. In light of the above, and particularly costs in relation to outstanding social security and housing provident fund contributions for the employees shall be borne by the Vendor, the Directors consider that any judgment or decision against the Target Company in respect of the aforesaid matter shall not materially and adversely affect the Enlarged Group's financial conditions and operation results.

The Property is the residential and commercial complex located at No. 69, Zhongshan Third Road, Eastern District, Zhongshan City, Guangdong Province, the PRC. The Property comprises 2 blocks of 28-storey residential buildings built over a 4-level retail podium and a 2-level basement car park, with superstructure works completed in about 2013, erected on a parcel of land with a registered site area of approximately 10,533.00 sq.m.. It is located on the northern side of Zhongshan Third Road at its junction with Xingzhong Road, in a central area near Lihe Plaza in East District, Zhongshan City. Development in the area mainly comprises residential, office and commercial developments with some 5-star hotels. In addition, the Property has a toal GFA of approximately 90,308.41 sq.m. (including 11,172.25 sq.m. for basement and 3,184.57 sq.m. for other facilities). The land use rights of the Property were granted for a term expiring on 20 January 2062 for commercial and residential use. The Target Company has obtained a pre-sale permit for 836 units of the Property (including 832 residential units and 4 commercial units) with a total GFA of approximately 75,395.31 square meters, valid from 14 March 2014 to 14 March 2016.

Based on Director's best understanding, between 2009 to 2013, occupancies in the Zhongshan serviced apartment sector remained relatively stable, ranging from 70% to 90%. During the period from 2011 to 2013, around 6,000 new serviced apartment units were added to the Zhongshan market from about 10,000 units to close to 16,000 units. The strong market performance was primarily driven by strong demand and limited new supply in Zhongshan's high-end hotel sector, which allowed serviced apartments to compete with hotels, as well as decreases in overall rental levels, reflecting serviced apartments discounting rentals to attract more tenants.

The Directors also note that according to the data collected and compiled by Soufun's website (www.soufun.com), the world's largest internet portal in the PRC for various property-related news and information, residential rental rates in the area of Zhongshan Third Road, Eastern District of Zhongshan City ("Zhongshan Third Road") as at the Latest Practicable Date ranged from RMB21.67 per sq.m. per month to RMB66.27 per sq.m. per month, with an average of approximately RMB40.75 per sq.m. per month, residential sales price in Zhongshan Third Road currently ranged from RMB6,818.18 per sq.m. to RMB14,461.54 per sq.m., with an average of approximately RMB9,779.45 per sq.m.. In addition, the average property yield was approximately 5.00%, calculated based on the annual residential rental rates in Zhongshan Third Road amounting to approximately RMB489.00 per sq.m. (assuming the average residential rental rates in Zhongshan Third Road of approximately RMB40.75 per sq.m. per month remains constant) divided by the average residential sales price in Zhongshan Third Road of approximately RMB9,779.45 per sq.m.. The Directors are in the view that the average yield on residential properties which will be used as serviced apartments are generally higher than the average yield rate on residential properties in Zhongshan as those residential properties have commenced provision of general apartment services, such as housekeeping services, car parks and other facilities. In light of the current state of the Property and by maintaining a prudent, conservative approach, upon completion of the Property's development, the Directors expect that the Property's expected rental rate, expected occupancy rate and expected property yield shall fall within the aforesaid minimum and maximum range, respectively and thus in line with market practice.

Furthermore, according to Soufun's website, the commercial rental rates in Zhongshan Third Road, ranged from RMB56.68 per sq.m. per month to RMB137.61 per sq.m. per month, with an average of approximately RMB100.48 per sq.m. per month, and commercial sales price in Zhongshan Third Road ranged from RMB26,548.67 per sq.m. to RMB40,183.49 per sq.m., with an average of approximately RMB32,070.70 per sq.m. as at the Latest Practicable Date. The average commercial yield was approximately 3.76%, calculated based on the annual commercial rental rates in Zhongshan Third Road amounting to approximately RMB1,205.76 per sq.m. (assuming the average commercial rental rates in Zhongshan Third Road of approximately RMB100.48 per sq.m. per month remains constant) divided by the average commercial sales price in Zhongshan Third Road of approximately RMB32,070.70 per sq.m.. In light of the current state of the Property, upon completion of the Property's development, the Directors expect that the expected rental rate and expected property yield of the commercial portion of the Property shall fall within the aforesaid minimum and maximum range, respectively and thus in line with market practice.

The Directors obtained the above data, including the residential rental rates, the residential sales prices, the commercial rental rates and the commercial sales price in Zhongshan Third Road through one of the well-known publicly accessible channels, namely Soufun's website. The Directors understand that Soufun website is the principal website of Soufun Holdings Limited, which has been listed on the New York Stock Exchange since 17 September 2010, under the symbol "SFUN". Although the Directors believe that the source of information as extracted from Soufun's website should be a reliable and an appropriate source of information and they have no reason to believe that such information is false or misleading or any fact has been omitted that would render such information false or misleading. However, Shareholders should note that the information as extracted from Soufun's website has not been independently verified by the Company and accordingly, the Directors cannot assure such information is up-to-date and as no representation is given to its accuracy. Please refer to the section headed "Other Risks" below for details.

The Target Company has signed sale and purchase agreements to sell 17 flats to third parties in 2011 and 2012. According to the sale and purchase agreements, the flats should be handled over to the buyers in December 2012 or 30 June 2013. However, up to 31 October 2014, the flats were not ready for handling over. Such delay was mainly due to financial strain and underestimation of the time required for completion of the shopping mall. As advised by the Target Company, the Property is expected to be completed on time by March 2015. Accordingly, interest should be paid to compensate the buyers for delayed handling over. The amount of interest incurred was approximately RMB0.47 million (equivalent to approximately HK$0.59 million) as at 31 October 2014. The Target Company has also signed another sale and purchase agreement with the ex-shareholder, 雲南凱茵房地產開發有限公司 (Yunnan Kaiyin Property Development Limited), for the sale of 40 flats, which was deemed as cancelled and a compensation of RMB12.60 million (equivalent to approximately HK$15.88 million) was provided for such cancellation. The receipt in advance for the aforesaid 57 flats in aggregate amounted to approximately RMB37.70 million (equivalent to approximately HK$47.50 million) as at 31 October 2014. As at the Latest Practicable Date, the Target Company is working on refund of monies paid by the relevant buyers and settlement of interest and compensation with an aggregate amount of RMB50.77 million (equivalent to approximately HK$63.97 million) in relation to 57 flats.

In May 2014, the Target Company signed a tenancy agreement with Youyue Department Store for the shopping mall. However, Youyue Department Store was not satisfied with the condition that the approval for completion and acceptance has not been obtained by the Target Company and the ancillary facilities of the shopping mall. Youyue Department Store then sent a letter to the Target Company to cancel the tenancy agreement and claimed for a compensation in accordance with the agreement. As such, the Target Company made provisions for compensation of approximately RMB7.50 million (equivalent to approximately HK$9.45 million). The deposit paid by Youyue Department Store for the tenancy agreement amounted to approximately RMB5.00 million (equivalent to approximately HK$6.30 million). As at the Latest Practicable Date, the Target Company is working on refund of monies paid by Youyue Department Store and settlement of compensation with an aggregate amount of RMB12.50 million (equivalent to approximately HK$15.75 million).

According to the Supplemental Sale and Purchase Agreement, in the event that the Vendor fails to settle the interest amount and compensation amount due to the relevant buyers and Youyue Department Store ("Possible Settlement Amount") before the Long Stop Date, the Purchaser shall offset the Possible Settlement Amount with the last cash payment of HK$600,000,000, which is due between two and three years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived. Given the fact that (1) cancelling the tenancy agreement by Youyue Department Store was mainly due to the reason that the approval for completion and acceptance has not been obtained by the Target Company in a timely manner without involvement of any quality issue of the Property; (2) the Possible Settlement Amount in aggregate can offset with the last cash payment of HK$600,000,000 as mentioned aforesaid should the Vendor fails to settle before the Long Stop Date; and (3) the approval for completion and acceptance is expected to be obtained by the Target Company before the Long Stop Date, the Board therefore considered that the settlement of the Possible Settlement Amount in aggregate, may not have any material financial impact on the Group as a whole.

The Target Company has received all necessary approvals and permits, etc. for the residential and commercial properties save and except for the approval for completion and acceptance and the property ownership certificates. As advised by the Company's PRC legal adviser, the approval for completion and acceptance is the prerequisite for obtaining the property ownership certificates. According to the Target Company's consultation with Zhongshan Urban and Rural Planning Bureau, given the fact that (i) the Property will be used for residential use which is consistent with the use of the Property prior to the Acquisition and (ii) the building structure of the Property will remain unchanged after the Acquisition, the intended of use of the Property as serviced apartment does not require any government approval. In addition, as advised by the Vendor, Target Company will obtain the approval for completion and acceptance before the Long Stop Date following the development of Property, which is expected to be completed in early March 2015.

The Target Company owns the following approvals/permits as at the Latest Practicable Date:

Approvals/Permits (Approvals/Permits Number)	Date of grant	Validity period	Conditions of grant, if any
State-owned Land Use Rights Certificate – Zhong Fu Guo Yong (2003) No. 211468	17 November 2003	20 January 2062	N/A
Construction Works Commencement Permit – No. 442000201003190132ZX0879	19 March 2010	N/A	N/A
Construction Works Planning Permit – Jian Zi No. 281042009090027	21 December 2009	N/A	N/A
Construction Land Use Planning Permit – No. 280222007050040(Bu)	12 June 2007	N/A	N/A
Commercial Housing Pre-sale Permit – Zhong Jian Fang (Yu) Zi No. 2011328	14 March 2014	14 March 2016	N/A

Superstructure works of the Property have been completed and installation of building services and escalators are currently being carried out. Completion of construction of the Property is expected to be early March 2015.

With reference to the valuation report prepared by the Valuer, the fair value of the Property on a completion basis as at 31 December 2014 was approximately RMB1,245 million (equivalent to approximately HK$1,568.70 million). The fair value of the Property does not take into consideration the Remaining Liabilities and the Actual Completion Costs, which shall be borne by the Vendor. The Directors believe that the Vendor will be able to meet its obligation for payment of the Remaining Liabilities and the Actual Completion Costs before the Long Stop Date. In the event that the Vendor fails to settle the aforesaid, the Purchaser shall then offset by the last cash payment of HK$600,000,000, which is due between two and three years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement have been fulfilled or waived by the Purchaser. The fair value breakdown of the residential, commercial and basement portions of the Property as at 31 December 2014 on completion basis were approximately RMB570,000,000 (equivalent to approximately HK$718,200,000), RMB591,000,000 (equivalent to approximately HK$744,660,000) and RMB84,000,000 (equivalent to approximately HK$105,840,000) respectively.

The Company intends to hold the Property (including 836 residential and commercial units with pre-sale permit) for long-term investment and for property rental business. It is the Group's strategies to develop its properties into budget hotels or, when appropriate, outright sales and the Directors consider that the Acquisition is in line with the Group's principal businesses. The Property will be classified as a non-current assets and be stated at its fair market value in the statements of financial position of the Group. The Property was classified as properties held for sale and as current assets in the statements of financial position of the Target Company.

The Company has discussed with the Valuer regarding the valuation report, including, in particular, the valuation approach, methodology and assumptions. The Company note that the Valuer has valued the property interest by direct comparison approach assuming sale of property interest as if completed and where comparison based on market price information of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighted against all the respective advantages and disadvantages of the property interest in order to arrive at a fair comparison of capital values. Although the Property is intended to be held for long term to earn rentals and the income approach may be adopted under such circumstances, the Company has enquired and has been advised by the Valuer that the income approach has not been adopted as income approach is commonly adopted when values are developed based on the capitalization of the net earnings that would be generated if a specific stream of income can be attributed to the property. Since no income or rental will be generated by the Property for the time being, income approach would be a less suitable method. In light of the above and taking into account that the Property is located in areas with appropriate comparable properties (including residential, commercial and basement portions) in the market and transactions take place frequently, the Board are satisfied that the direct comparison approach is used as it would be the most suitable and reliable method and is fair and reasonable so far as the Shareholders are concerned as a whole.

With reference to the valuation report, the Company also note that valuation of the Property has been made on the assumptions that the owner sells the property on the open market as if completed as at 31 December 2014 without the benefit of deferred terms contracts, leasebacks, joint venture, management agreement or any similar arrangement which could serve to affect the value of property and no force sale situation in any manner is assumed in the valuation. The Company has reviewed the major assumptions of the valuation report and discussed with the Valuer regarding those assumptions and are not aware of any assumptions which are uncommon to normal market practice. Having considered the above, the Board are of the view that the assumptions as mentioned in the valuation report are fair and reasonable so far as the Shareholders are concerned.

Set out below is a summary of the key financial information of the Target Company for each of the three years ended 31 December 2011, 2012 and 2013 and for the ten months ended 31 October 2014, as extracted from the unaudited management accounts of the Target Company:

Extracts of income statement of the Target Company

	Ten months ended 31 October	Year ended 31 December		
	2014	**2013**	**2012**	**2011**
	RMB' million	*RMB' million*	*RMB' million*	*RMB' million*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net loss before taxation	8.24 (equivalent to approximately HK$10.38 million)	13.21 (equivalent to approximately HK$16.64 million)	0.22 (equivalent to approximately HK$0.28 million)	2.44 (equivalent to approximately HK$3.07 million)
Net loss after taxation	8.24 (equivalent to approximately HK$10.38 million)	13.21 (equivalent to approximately HK$16.64 million)	0.22 (equivalent to approximately HK$0.28 million)	2.44 (equivalent to approximately HK$3.07 million)

Extracts of statements of financial position of the Target Company

	As at 31 October	As at 31 December		
	2014	**2013**	**2012**	**2011**
	RMB' million	*RMB' million*	*RMB' million*	*RMB' million*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Total assets	239.63 (equivalent to approximately HK$301.93 million)	238.63 (equivalent to approximately HK$300.67 million)	228.96 (equivalent to approximately HK$288.49 million)	162.11 (equivalent to approximately HK$204.26 million)
Total liabilities	237.17 (equivalent to approximately HK$298.83 million)	227.93 (equivalent to approximately HK$287.19 million)	206.73 (equivalent to approximately HK$260.48 million)	139.66 (equivalent to approximately HK$175.97 million)
Net assets	2.46 (equivalent to approximately HK$3.10 million)	10.70 (equivalent to approximately HK$13.48 million)	22.23 (equivalent to approximately HK$28.01 million)	22.45 (equivalent to approximately HK$28.29 million)

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET COMPANY

Set out below is the management discussion and analysis on the Target Company for the period from 1 January 2011 to 31 December 2011, from 1 January 2012 to 31 December 2012, from 1 January 2013 to 31 December 2013, and from 1 January 2014 to 31 October 2014 (together the "Relevant Periods").

Financial and business review

The following is the consolidated financial information of the Target Company for the periods from 1 January 2011 to 31 December 2011, from 1 January 2012 to 31 December 2012, from 1 January 2013 to 31 December 2013, and from 1 January 2014 to 31 October 2014, which is extracted from the audited financial statements of the Target Company prepared in accordance with Hong Kong Financial Reporting Standards:

	Year ended 31 December			Ten months ended 31 October	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	–	–	–	–	–
Loss for the year/period	2,439	217	13,214	11,897	8,239

The Target Company was a limited liability company established in the PRC on 10 July 1993. The address of its registered office and principal place of business is at 83, Zhong Shan San Lu, Zhong Shan, Guangdong, the PRC. The principal activity of the Target Company is property development. The ultimate holding company and parent company of the Target Company is the Vendor, a company incorporated in Samoa with limited liability.

The Target Company had accumulated losses of approximately RMB17,584,000, RMB17,801,000, RMB31,015,000 and RMB39,254,000 as at 31 December 2011, 2012, 2013 and 31 October 2014 respectively and the Target Company had capital commitments in respect of the properties under development in the PRC of approximately RMB20,003,000 as at 31 October 2014.

Description of Principal Income Statement Items

Other income

For the year ended 31 December 2011, 31 December 2012 and 31 December 2013, the other income generated by the Target Company were RMB32,000, RMB70,000 and RMB17,000, respectively. For the ten months ended 31 October 2013 and 31 October 2014, the Target Company generated other income amounted to approximately RMB15,000 and RMB1,000 respectively.

Other operating expenses

For the year ended 31 December 2011, 31 December 2012 and 31 December 2013, the other operating expenses incurred by the Target Company were RMB540,000, RMB52,000 and RMB12,796,000. For the ten months ended 31 October 2013 and 31 October 2014, the Target Company incurred other operating expense amounted to approximately RMB11,541,000 and RMB7,781,000, respectively. The other operating expenses for the year 2011 were bad debts written off, while the other operating expenses for the year 2013 and 10 months of 2014 were the provision for compensation to parties due to failure to hand over the flats and lease out the shopping malls.

Administrative expenses

For the year ended 31 December 2011, 31 December 2012 and 31 December 2013, the administrative expense incurred by the Target Company were RMB194,000, RMB229,000 and RMB429,000, respectively, which mainly representing wages and salaries of RMB88,000, RMB113,000 and RMB104,000 respectively and rental expenses of RMB14,000, RMB10,000 and RMB45,000, respectively. For the ten months ended 31 October 2013 and 31 October 2014, the Target Company incurred administrative expense amounted to approximately RMB366,000 and RMB456,000, respectively.

Description of Principal Balance Sheet Items

Prepayments

As at 31 December 2011, 31 December 2012, 31 December 2013 and 31 October 2014, prepayments of the Target Company amounted to approximately RMB997,000, RMB784,000, RMB397,000 and RMB347,000, respectively. The prepayments represented amounts paid to contractors for their works.

Amounts due to shareholders

The amounts due to shareholders were approximately RMB130,199,000, RMB153,741,000, RMB151,403,000 and RMB153,249,000 as at 31 December 2011, 31 December 2012, 31 December 2013 and 31 October 2014, respectively. The advances from shareholders were for the payments to contractors for their work on the property under development, which were unsecured, interest free and repayable on demand. Subject to the terms and conditions of the Supplemental Sale and Purchase Agreement, the Enlarged Group shall pay the amount due to shareholders of approximately RMB153.25 million as at 31 October 2014 in three installments: (i) as to RMB3.25 million by cash within one year after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived; (ii) as to RMB10.00 million by cash within two years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived; and (iii) as to RMB140.00 million by cash within three years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived.

Other payables

As at 31 December 2011, 31 December 2012, 31 December 2013 and 31 October 2014, other payables amounted to approximately RMB2,858,000, RMB5,675,000, RMB5,199,000 and RMB6,341,000 respectively. Other payables mainly represented rental deposits received from the lessee of RMB5,000,000 as at 31 December 2012, 31 December 2013 and 31 October 2014.

Receipts in advance

As at 31 December 2011, 31 December 2012, 31 December 2013 and 31 October 2014, receipts in advance amounted to RMB2,626,000, RMB35,166,000, RMB37,853,000 and RMB37,699,000 respectively. These amounts represented the receipts from the parties for the pre-sale of flats.

Capital structure, liquidity and financial resources

Operating activities

The Target Company's net cash used in operating activities for the years of 2011, 2012 and 2013 were RMB61,397,000, RMB10,047,000 and RMB14,327,000 respectively.

For the ten months ended 31 October 2013 and 31 October 2014, the net cash used in operating activities was RMB16,100,000 and RMB1,798,000.

The net cash used in operating activities for years 2011, 2012 and 2013 and for the ten months ended 31 October 2014 were mainly due to cash used for the work on the property under development.

Financing activities

The Target Company's net cash generated from financing activities for the years of 2011 and 2012 were RMB59,438,000 and RMB23,542,000 respectively. The Target Company's net cash used in financing activities for the year of 2013 was RMB658,000.

For the ten months ended 31 October 2013 and 31 October 2014, the net cash generated from financing activities was RMB2,603,000 and RMB1,846,000 respectively.

Net cash generated from/used in financing activities primarily represented the advances from/repayment to the shareholders.

Gearing ratio

During the Relevant Periods, the Target Company did not have any interest-bearing borrowings. The Target Company computed its gearing ratio with its only borrowings, being the amounts due to shareholders, minus its cash and cash equivalents over its total equity. The gearing ratio of the Target Company as at 31 December 2011, 31 December 2012, 31 December 2013 and 31 October 2014 were as follows:

	As at 31 December 2011	**As at 31 December 2012**	**As at 31 December 2013**	**As at 31 October 2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to shareholders	130,199	153,741	151,403	153,249
Cash and cash equivalents	(1,729)	(15,249)	(281)	(278)
Net debts	128,470	138,492	151,122	152,971
Total equity	22,450	22,233	10,699	2,460
Gearing ratio *(%)*	572.25%	622.91%	1412.49%	6,218.33%

Foreign currency exposure

As the Target Company's monetary assets and liabilities are all denominated in RMB and the Target Company conducts its business transactions only in RMB, the currency risk of the Target Company is remote and the Target Company does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Pledge of assets

The Target Company did not have any charge on assets as at 31 October 2014.

Material investments, acquisitions or disposals and commitment

There were no material investments, acquisitions and disposals of subsidiaries and associated companies for the the Target Company during the Relevant Periods. Other than the development of the Daxing Hao Yuan, the Target Company did not any future plans for material investments or material capital expenditure commitment as at the Latest Practicable Date.

Contingent liabilities

There was a dispute between the Target Company and the contractor, 宏潤建設集團股份有限公司 (Hongrun Construction Group Holdings Company Limited)（"Hongrun Construction"）. On 11 July 2013, Hongrun Construction filed a suit against the Target Company to the People's First Court of Zhongshan City (the "Court"), claiming for payment for construction work in the amount of RMB22,134,236.50, along with a penalty interest of 0.021% per day from the date of filing the suit to the effective date of the judgment (together the "Claim"). Hongrun Construction claimed that 1) the Target Company has not made progress payment according to the progress of construction works, 2) the Target Company should bear the responsibility of delay in checking and accepting the completed works, 3) the Target Company should bear the additional costs arising in the course of construction and 4) the Target Company should pay interest to Hongrun Construction. However, the Court declared that it was not in a position to judge whether the Target Company should pay for the outstanding amount immediately. On 12 July 2013, the Court issued two orders to sequestrate the Target Company's 139 units of the properties under development for 2 years until 12 July 2015 as a procedural protection for the plaintiff's claims. The total gross floor area of the 139 units is 9,637.83 square meters with an estimated relevant book value of approximately RMB25,416,000.

According to the Target Company, the Court has not ruled on the case so far. The Target Company wishes to settle the case with the plaintiff, but no settlement has been reached because of failure to agree on the settlement amount. If the Court rules in favor of the plaintiff and the Target Company fails to pay the claimed amount within the court-prescribed time, at the request of the plaintiff, the Court would dispose of some or all of the 139 units sequestrated through public auction until the plaintiff's claims have been settled in full. The Directors are of the opinion that, in the event that the Target Company fails in its defense to the Claim, the quantum of the ultimate costs and damages (if any) to be incurred by the Target Company, though cannot be ascertained or quantified at this early stage, based on the advices from the Company's PRC legal advisers and assuming that Hongrun Construction will claim for damages for loss of profits, or at its election, for accounts of profits, it will not have a material adverse impact on the Target Company, as the Vendor will bear all damages for loss of profit successfully claimed by Hongrun Construction pursuant to the Supplemental Sale and Purchase Agreement.

Employees and remuneration policies

No emoluments were paid by the Target Company to any director as an incentive payment for joining the Target Company or as compensation for loss of office during the Relevant Periods. No director's emoluments were waived during the Relevant Periods.

Dividend

During the Relevant Periods, the Target Company did not declare or pay any dividend.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the businesses of hotel investment and operations and property investment. The Group intends to position the Property as high-rise apartment buildings, with a mixture of leisure and entertainment facilities in addition to the traditional property development components of residential and commercial and it is designed to cater to the needs of retirement residents. The Group intends to carry out further interior decoration, furnishing and fittings (together the "Decoration") in 5 phases with a total site area of approximately 10,533 square meters and with a total GFA of approximately 90,308.41 square meters with no development of additional site area and completion of Decoration shall take place by end of June 2018. The future cost required for the completion of Decoration shall borne by the Purchaser, with an estimated amount of approximately HK$250 million. After obtaining the approval for completion and acceptance, which is expected to be on or before 31 March 2015, phase 1 of the Decoration shall commence in early April 2015. At the same time, the Property is expected to commence operations and generate revenue in early July 2015.

No sales/letting arrangements has been in negotiation or entered into by the Company as at the Latest Practicable Date. The Company currently intends to issue convertible bonds as one of the fund raising alternatives to raise additional capital to settle the shortfall of cash consideration in the near future taken into account that it can release cashflow pressure of the Group, without using its existing cash resources for funding. In addition, the interest rate carried by convertible bonds usually carries a lower rate than the market borrowing rate. As at the Latest Practicable Date, the Company is not in any discussion or negotiation for fund raising (including equity or debt) arrangement. However, the Company will decide the source of fund (i.e. (i) equity financing through placing of new Shares, rights issues or open offer of the Company; or (ii) debt financing through issuing debentures, notes or convertible notes) after considering its liquidity, cash on hands and leverage level at the relevant time. The Board will ensure the decisions of sources of fund are in the benefits of the Company and the Shareholders.

The Group had been loss-making in two consecutive years ended 31 March 2013 and 31 March 2014, totaling to a net loss after tax of approximately HK$72.5 million and HK$40.8 million, respectively. In view of the unsatisfactory financial performance of the Group, the management of the Group has continued to review its existing businesses from time to time and strived to improve the business operation and financial position of the Group. It has been the business strategy of the Group to proactively seek potential investment opportunities that could enhance its value to the Shareholders. The Directors consider that it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing investment portfolio and to broaden its source of income.

As at the Latest Practicable Date, the Group has three properties in Yingkou, Weifang and Ninghai, the PRC in its property portfolio through "U" Inns & Hotels Holdings Limited. According to the management of the Company, the Company will adopt a prudent land reserve approach to explore more premium grade property projects with promising potentials in the PRC. The Company had identified the Target Company, with the Property as its principal assets, as an appropriate acquisition target for the Group and consider that the terms of the Acquisition are fair and reasonable and in the best interests of the Company and Shareholders as a whole due to the following reasons.

The Property is a commercial and residential property located in the intersection of Zhongshan Third Road and Xingzhong Road, Shiqi District, Zhongshan City which has an established traffic network. Shiqi District is thus situated in a strategic location for setting up businesses. The Board has considered the prospects of the real estate market in the PRC and evaluated the valuation and the locality of the Property. According to the information from the website of National Bureau of Statistics of China, the gross domestic product of the PRC increased from the year 2009, which amounted to approximately RMB34,090.3 billion (equivalent to approximately HK$42,953.8 billion) to approximately RMB56,884.5 billion (equivalent to approximately HK$71,674.5 billion) for the year 2013, representing a CAGR of approximately 13.7%. According to the Bureau of Statistics of Zhongshan City, the gross domestic product of Zhongshan City increased from the year 2009, amounted to approximately RMB156.4 billion (equivalent to approximately HK$197.1 billion) to approximately RMB263.9 billion (equivalent to approximately HK$332.5 billion) for the year 2013, representing a CAGR of approximately 14.0%. Furthermore, a total GFA sold of approximately 7.8 million sq.m. of commodity properties in 2013, representing a CAGR of approximately 8.5% over 5.6 sq.m. of commodity properties in 2009. Data for the gross domestic product of the PRC in 2014, the gross domestic product of the Zhongshan City in 2014 and the total GFA sold for commodity properties in 2014 are currently not available.

In light of the above, the Directors are of the opinion that the Acquisition would provide promising prospects for the Group as the Property is located in Zhongshan, one of the major business hubs in southern China. With the well-developed traffic network and infrastructure, the rental of commercial and residential space in Zhongshan City has been growing continuously.

In addition, pursuant to the terms and conditions of the Supplemental Sale and Purchase Agreement, the Enlarged Group shall pay the amount due to shareholders of the Target Company of approximately HK$153.25 million as at 31 October 2014 ("Debt") in three installments: (i) as to HK$3.25 million by cash within one year after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived; (ii) as to HK$10.00 million by cash within two years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived; and (iii) as to HK$140.00 million by cash within three years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived. The repayment of Debt was based on commercial decision between the Purchaser and the Vendor after taking into account, among others (i) commercial reasons and benefits, which are set out in the section headed "Reasons for and the benefits of the Acquisition" as stated above; and (ii) to relieve liquidity pressure of the Target Company to repay the Debt given that it had incurred net losses for the three financial years ended 31 December 2011, 2012 and 2013 and for the ten months ended 31 October 2014.

Having considered the above and on the basis of the foregoing, the Directors are of the view that the terms of the Acquisition, which have been agreed after arm's length negotiations, are on normal commercial terms and such terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

RISK FACTORS RELATING TO THE ACQUISITION

Risks relating to the business

The followings are certain risks related to the operations of the Target Company. Investors and potential investors of the Company are reminded that these risks are inter-related and may affect the operations and performance of the Group as a whole.

The Target Company sustained net losses for the three years ended 31 December 2011, 2012 and 2013 and for the ten months ended 31 October 2014 and it may incur net losses in the future

For each of the financial years ended 31 December 2011, 2012 and 2013 respectively and for the ten months ended 31 October 2014, accumulated losses attributable to the Target Company amounted to approximately RMB17,584,000, RMB17,801,000, RMB31,015,000 and RMB39,254,000 respectively. Such losses were mainly resulting from recurring operating expenses and non-recurring compensations to various parties due to the prolonged development of the property. The management of the Enlarged Group expects that after the development of the property is completed, the Target Company can generate sufficient income to cover its expenditures. Nevertheless, there are numerous factors that will affect the performance of the Target Company and there is no guarantee that the Target Company will be profitable in the future.

Failure to obtain the approval and permits for completion and acceptance for the Property may materially and adversely affect the Target Company's business, prospects, financial condition and results of operations

According to The Construction Law of the PRC (中華人民共和國建築法) (Presidential Decree No, 91) (the "Construction Law") that was enacted and passed by the Standing Committee of the 8th National People's Congress on November 1, 1997 and effective from March 1, 1998 and amended on April 22, 2011, no construction project shall be delivered for uses without the completion and acceptance certificate.

As at the Latest Practicable Date, the Target Company has received all necessary approvals and permits for the residential and commercial properties save and except for obtaining the approval and permits for completion and acceptance for the Property. As stated in the Letter from the Board, obtaining the approval for completion and acceptance for the Property and relieve the Property from any encumbrances or third party's claims is one of the conditions precedent for the Purchaser to pay the remaining second and third installments of the consideration. If the Target Company cannot obtain the approval and permits of the aforesaid in a timely manner, the Vendor shall refund the first installment of the consideration to the Purchaser and at the same time, terminate the Acquisition, which may have a material impact on the Group's business, prospects and results of operations.

Failure to settle the Remaining Liabilities, the Actual Completion Costs and the Possible Settlement Amount by the Vendor may affect the Group's liquidity and its ability to expand its business

Pursuant to the Supplemental Sale and Purchase Agreement, the Remaining Liabilities, the Actual Completion Costs and the Possible Settlement Amount shall be borne by the Vendor. Despite the Directors believe that the Vendor will be able to meet its obligation for payment of the Remaining Liabilities, the Actual Completion Costs and the Possible Settlement Amount before the Long Stop Date, and in the event that the Vendor fails to settle the aforesaid before the Long Stop Date, the Purchaser shall then offset by the last cash payment of HK$600,000,000, which is due between two to three years after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waived by the Purchaser, the Group's liquidity and its ability to expand its business could then be affected.

Inability to obtain additional financing, if and when needed

The Group has, to date, financed its working capital and capital expenditures needs primarily through operating cash flow, borrowing from a related party, shareholder advances and capital contributions. Despite the Board believes that the Acquisition can enhance the Company's financial position in the long run, which the Company will be able to meet its financial commitments in the outstanding cash consideration, the ability to raise additional capital, however, will depend on the financial success of the current business of the Group, the successful implementation of its key strategic initiatives, as well as other external factors such as financial, economic and market conditions and other factors, some of which are beyond the control of the Group. The Group may not be successful in raising any required additional capital if and when needed, the business operations and financial condition of the Group may be adversely affected.

Other Risks

Reliability of statistics

Both the statistics and the industry information contained in the section headed "Information on the Vendor, the Target Company and the Property" in this circular are gathered from various unofficial sources, unless otherwise indicated as official sources. For statistics derived from unofficial sources, such as statistics relating to occupancies in Zhongshan serviced apartment sector between 2009 to 2013 and the number of newly added serviced apartment units in Zhongshan from 2011 to 2013 were information advised by the Company based on internal resources. For official sources, such as statistics relating to current monthly residential rental rates, current residential sales price, the average property yield in Zhongshan, the gross domestic product of the PRC, the gross domestic product of Zhongshan City, the total GFA sold for commodity properties in the PRC, although reasonable actions have been taken by the Directors to ensure the statistics are extracted accurately from such sources, the Company, the Directors and all other parties involved in the transaction have not carried out any independent review of the statistics or the methodology in the gathering, compilation or presentation of such statistics. Accordingly, the Company, the Directors and all other parties involved in the transaction make no representation as to the accuracy of such official statistics, and are not able to give any assurance that the official statistics are intrinsically consistent. As the Company, the Directors and all other parties involved in the transaction cannot ascertain the data collecting method and the accuracy involved, the official statistics contained in that section may be inaccurate, or may not be comparable with the statistics obtained in other economies. Accordingly, there is no assurance that such official facts and official statistics have been stated or prepared to the same standard or level of accuracy as those in other publications.

FINANCIAL EFFECTS OF THE ACQUISITION

Assets and liabilities

Upon Completion, Target Company will become an indirect wholly-owned subsidiary of the Company. The unaudited consolidated total assets and total liabilities of the Group as at 30 September 2014, as extracted from the interim report 2014/2015 of the Company, were approximately HK$578,344,000 and HK$450,754,000, respectively. As if the Completion had taken place on 30 September 2014, the pro forma total assets and total liabilities of the Enlarged Group would have been increased to approximately HK$2,071,396,000 and HK$1,585,793,000 respectively as set out in Appendix III to this circular.

Earnings

Following the Completion, Target Company will become an indirect wholly-owned subsidiary of the Company and the Group will be able to consolidate the results of the Target Company. The net loss attributable to owners of the Company for the year ended 31 March 2014, as extracted from the 2013/2014 annual report of the Company, was HK$45,288,000. As if the Acquisition had been completed on 1 April 2013, the pro forma net loss attributable to the owners of the Company of the Enlarged Group would have been approximately HK$11,823,000 as set out in Appendix III to this circular.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Despite that the administrative policies implemented by the PRC central government have curbed certain speculative transactions in the property market in the PRC, sale transactions of residential flats in the PRC are still strongly supported by firm demand of the end users. This forms the momentum to push forward the development and longer-term prospect of the real estate market in the PRC. The Group shall continue to cautiously identity lucrative land investment opportunities to build up its land reserve in the PRC, aiming at maximizing the Shareholders' wealth. It is the Group's strategies to develop its properties into budget hotels or, when appropriate, outright sales. The Group will continue to focus on its principal business of hotel investment and operations and property investment and the Company does not have any present intention to expand or withdraw from its principal business in the foreseeable future.

As described in details in the paragraphs headed "Reasons for and benefits of the Acquisition" as above, the real estate market in the PRC shall continue to prosper. In particular, according to the Bureau of Statistics of Zhongshan City, the gross domestic product of Zhongshan City increased from the year 2009, amounted to approximately RMB156.4 billion to RMB263.9 billion for the year 2013, representing a CAGR of approximately 14.0%. A total GFA sold of approximately 7.8 million sq.m. of commodity properties in 2013, representing a CAGR of approximately 8.5% over 5.6 sq.m. of commodity properties in 2009. The average selling price per sq.m. of commodity properties in Zhongshan was approximately RMB6,049.7 in 2013, representing a CAGR of approximately 7.1% over RMB4,594.3. of commodity properties in 2009.

The Acquisition will also enable the Enlarged Group to extend its property portfolio to Zhongshan other than major cities including Yingkou, Weifang and Ninghai, the PRC. Based on the aforesaid, the Board believes that the Acquisition can enhance the value of the Company as a whole and at the same time broaden the Enlarged Group's source of income.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following chart sets out the shareholding structure of the Company, (i) as at the Latest Practicable Date; (ii) upon issue of the Consideration Shares; and (iii) immediately after issue of the Consideration Shares.

	As at the Latest Practicable Date		**Upon issue of the Consideration Shares**		**After issue of the Consideration Shares**	
	Number of shares	*Approximate percentage*	*Number of shares*	*Approximate percentage*	*Number of shares*	*Approximate percentage*
Shareholders						
Crown Landmark Corporation	1,329,318,000	61.54	1,329,318,000	51.13	1,329,318,000	51.13
Vendor *(Note 3)*	–	–	440,000,000 *(Note 1)*	16.92	–	–
– BPVL *(Note 3 & 5)*	–	–	–	–	132,000,000 *(Note 2)*	5.08
– ABL *(Note 4 & 5)*	–	–	–	–	154,000,000 *(Note 2)*	5.92
– LL *(Note 4 & 5)*	–	–	–	–	154,000,000 *(Note 2)*	5.92
Public *(Note 5)*	830,682,000	38.46	830,682,000	31.95	830,682,000	31.95
Total	2,160,000,000	100.00	2,600,000,000	100.00	2,600,000,000	100.00

Note 1: The Vendor is an investment holding company beneficially owned as to 30% by BPVL, as to 35% by ABL and as to 35% by LL. The Purchaser shall allot and issue 440,000,000 Consideration Shares to the Vendor immediately after all conditions precedent set out in the Supplemental Sale and Purchase Agreement are fulfilled or waive by the Purchaser.

Note 2: It is expected that the Vendor will not become a substantial Shareholder(s) (as defined under the Listing Rules) after issue of 440,000,000 Consideration Shares by the Purchaser as the Vendor shall immediately transfer such Consideration Shares to each of BPVL, ABL and LL in proportion of their respective shareholding in the issued share capital of the Vendor, in which BPVL, ABL and LL will own 132,000,000 Shares, 154,000,000 Shares and 154,000,000 Shares, representing approximately 5.08%, 5.92% and 5.92%, respectively of the enlarged issued share capital of the Company.

Note 3: BPVL is beneficially owned as to 100% by Mr. Chau Cheok Wa. Mr. Chau is currently an executive director and chairman of Sun Century Group Limited (1383.HK), which is principally engaged in the business of operating and managing V.I.P. clubs at hotels. Mr. Chau is also a Committee Member of China Overseas Friendship Association.

Note 4: ABL is beneficially owned as to 100% by Mr. Shi Jun and LL is beneficially owned as to 100% by Mr. Wei Zhenming. As at the Latest Practicable Date, each of Mr. Shi Jun and Mr. Wei Zhenming does not hold any directorships or shareholding interests in any listed companies in Hong Kong.

Note 5: These are all "public" shareholders.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Listing Rules and will accordingly be subject to the requirements of reporting, announcement and the shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the Vendor and its ultimate beneficial owners are third parties independent of the Company and its connected persons within the meaning of the Listing Rules; (ii) the Vendor, its ultimate beneficial owners and their respective associates did not hold any Shares, options or securities convertible or exchangeable into Shares as at the Latest Practicable Date; and (iii) the Vendor and its ultimate beneficial owners did not have any prior business relationship or had entered into or propose to enter into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, and negotiation (whether concluded or not) with the Company or any of its connected persons as at the Latest Practicable Date. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition which is different from the other Shareholders. Therefore, no Shareholder is required to abstain from voting on the relevant resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. If the Vendor and its ultimate beneficial owners hold any Shares on the date of SGM, they will be required to abstain from voting on the relevant resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

SGM

The SGM will be held at Executive Boardroom, Business Centre, Level 7, Island Shangri-La, Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Monday, 23 February 2015 at 11:00 a.m. to consider and, if thought fit, approve the (i) Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) the allotment and issue of the Consideration Shares. Notice of the SGM is set out on pages 103 to 104 of this circular and the form of proxy for use at the SGM is enclosed with this circular. Whether or not you propose to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same to the registered office of the Company at Suite 1603, 16th Floor Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, or at the Share Registrar of the Company, Boardroom Share Registrars (HK) Limited, at 31/F., 148 Electric Road, North Point, Hong Kong as soon as possible and in any event not later than 48 hours before the time for holding the SGM or any adjournment thereof. Completion and delivery 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.

RECOMMENDATION

The Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable and the entering into of the Sale and Purchase Agreement is in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favor of the resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Crown International Corporation Limited
Liu Pin Tsung
Chairman

1. FINANCIAL INFORMATION INCORPORATED BY REFERENCE

Financial information of the Group for the six months ended 30 September 2014 and for each of the three years ended 31 March 2014, 2013 and 2012 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.crownicorp.com).

The consolidated financial statements (including the notes thereto) of the Group for the six months ended 30 September 2014 has been set out in pages 8 to 43 of the interim report 2014/2015 of the Company which are incorporated by reference into this circular and are available on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the interim report 2014/2015:

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/1218/LTN20141218227.pdf

The consolidated financial statements (including the notes thereto) of the Group for the year ended 31 March 2014 has been set out in pages 40 to 129 of the annual report 2013/2014 of the Company which are incorporated by reference into this circular and are available on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the annual report 2013/2014:

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0724/LTN20140724519.pdf

The consolidated financial statements (including the notes thereto) of the Group for the year ended 31 March 2013 has been set out in pages 38 to 126 of the annual report 2012/2013 of the Company which are incorporated by reference into this circular and are available on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the annual report 2012/2013:

http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0711/LTN20130711388.pdf

The consolidated financial statements (including the notes thereto) of the Group for the year ended 31 March 2012 has been set out in pages 40 to 142 of the annual report 2011/2012 of the Company which are incorporated by reference into this circular and are available on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the annual report 2011/2012:

http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0712/LTN20120712279.pdf

2. INDEBTEDNESS STATEMENT

Borrowings

As at 31 December 2014, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had an unsecured and interest free amount due to the Vendor of RMB153,248,800 (equivalent to HK$193,093,488).

Save as disclosed above or as otherwise mentioned herein, and apart from intragroup liabilities and normal accounts payables in the ordinary course of business as at 31 December 2014, the Enlarged Group did not have any debt securities issued and outstanding, and authorized or otherwise created but unissued, and term loans, distinguishing between guaranteed, unguaranteed, secured (whether the security is provided by the issuer or by third parties) and unsecured, and other borrowings or indebtedness in the nature of borrowing of the Enlarged Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, distinguishing between guaranteed, unguaranteed, secured and unsecured borrowings and debt, and any mortgages and charges of the Enlarged Group.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2014, being the date to which the latest published audited accounts of the Group were made up.

4. WORKING CAPITAL STATEMENT

The Directors are of the opinion that taking into account of the Group's internal resources, cash flow from operations, the effect of the Acquisition and also other facilities available to the Enlarged Group, the Enlarged Group will have sufficient working capital for a period of 12 months from the date of this circular.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set forth below is the management discussion and analysis on the Group's financials:

(i) For the six months ended 30 September 2014

Business review

For the six months ended 30 September 2014, the Group recorded turnover of approximately HK$1.8 million which derived 100% from property investment. The Group's profit after taxation was approximately HK$190.2 million which was mainly consist of non-operating profit. Finance costs during the six months ended 30 September 2014 decreased significantly by HK$22.1 million as VXLCPL has agreed to conditionally and irrevocably waive part of the outstanding due to VXLCPL amounting to HK$138,124,765 as at 31 March 2014 and no further interest and other obligations during the same period under review. In addition, the Group incurred a decrease in net operating expenses, which was mainly due to decrease in depreciation expenses, resulting from the disposal of subsidiaries being offset by the additional legal, professional and consultancy fee for the six months ended 30 September 2014.

Liquidity, financial resources and capital structure

As at 30 September 2014, the Group's borrowings were approximately HK$409.6 million. All of the Group's available banking facilities have been uitlilzed. The Group's equity was approximately HK$127.6 million as at 30 September 2014.

Commitments

As at 30 September 2014, the Group had lease commitments where the Group was the lessor of approximately HK$27.7 million and lease commitments where the Group was the lessee of approximately HK$4.6 million. The Group did not have any capital commitments as at 30 September 2014.

Significant investment, material acquisition and disposal

On 4 July 2013, the Company, "U" Inns & Hotels Investment Limited ("UIHIL") and Fortune Sea Group Limited ("FSG") entered into an asset swap agreement to acquire 25.9% equity interest in U Inns & Hotels Holdings Limited ("UIHHL"). FSG was a connected person of the Company. The consideration payable for the UIHHL shares was satisfied by way of transfer of the Xi'an shares from UIHIL to FSG. The transaction was completed on 18 April 2014.

On 24 October 2012, UIHIL entered into a disposal agreement to dispose 100% equity interest of Wafangdian, which was a hotel, to an independent third party, for a consideration of RMB24.1 million (equivalent to approximately HK$30.4 million). The transaction was completed on 8 May 2014.

On 17 October 2013, UIHIL entered into a disposal agreement to dispose 100% equity interest of Tonghua, which was a hotel, to an independent third party, for a consideration of RMB19 million (equivalent to approximately HK$23.9 million). The transaction was completed on 15 May 2014.

On 19 December 2013, UIHIL entered into a disposal agreement to dispose 100% equity interest of Wuhan, which was a hotel, to an independent third party, for a consideration of RMB14.1 million (equivalent to approximately HK$17.8 million). The transaction was completed on 16 May 2014.

On 22 January 2014, UIHIL entered into a disposal agreement to dispose 100% equity interest of Jinggangshan, which was a hotel, to an independent third party, for a consideration of RMB50 million (equivalent to approximately HK$63 million). The shareholding was transferred on 5 June 2014.

Employees and remuneration policies

As at 30 September 2014, the Group had a total of 30 employees, including executive Directors. The Group's remuneration policy and packages for the executive Directors and senior management are reviewed and recommended by the Remuneration, Quality and Nomination Committee ("RQN Committee") and approved by the Board on an annual basis while that for other employees' are reviewed and approved by the chief executive officer. The Group remunerates its employees based on industry practice and the performance of each individual. The Group also offers discretionary bonuses, medical insurance, and defined contribution retirement plans, and provides a share option scheme for its employees and executive Directors.

Currency and Interest Rate Structure

The Group had certain foreign currency monetary assets and liabilities which were denominated in RMB and USD. The Group monitored foreign exchange exposure and would consider hedging significant foreign currency exposure should the need arise. As at 30 September 2014, the Group did not enter into any agreement to hedge against the foreign exchange risk.

The Group's interest rate risk arose primarily from RMB and USD. All the borrowings and deposits were on a floating and fixed rate basis.

The Group did not use financial derivatives to hedge against the interest rate risk. However, the interest rate profile of the Group's net deposits (being bank deposits and amount due from a related company less interest-bearing financial liabilities) was closely monitored by management.

(ii) For the twelve months ended 31 March 2014

Business review

For the twelve months ended 31 March 2014, the Group recorded turnover of approximately HK$6.0 million which mainly comprised revenue from hotel operations of approximately HK$0.9 million and rental income of approximately HK$5.1 million. The Group's loss after tax was approximately HK$40.8 million which was mainly consist of finance costs of approximately HK$44.7 million and other net operating expenses of approximately HK$26.7 million.

Liquidity, financial resources and capital structure

As at 31 March 2014, the Group's borrowings were approximately HK$407.4 million. All of the Group's available banking facilities have been utilized. The Group recorded net liabilities of approximately HK$39.7 million as at 31 March 2014.

Commitments

As at 31 March 2014, the Group had lease commitments where the Group was the lessor of approximately HK$24.1 million and lease commitments where the Group was the lessee of approximately HK$1.9 million. The Group had capital commitments of HK$0.8 million as at 31 March 2014.

Significant investment, material acquisition and disposal

On 4 July 2013, the Company acquired UIHHL from a substantial shareholder of UIHHL.

On 31 May 2013, UIHIL entered into a disposal agreement to dispose 100% equity interest of Xiangfan, which was a hotel, to an independent third party, for a cash consideration of RMB24.9 million (equivalent to approximately HK$31.3 million). The transaction was completed on 3 July 2013.

On 8 February 2013, UIHIL entered into a disposal agreement to dispose 100% equity interest of Tulufan, which was a hotel, to an independent third party, for a cash consideration of RMB15.1 million (equivalent to approximately HK$19.1 million). The transaction was completed on 1 July 2013.

On 31 May 2013, UIHIL entered into a disposal agreement to dispose 100% equity interest of Buerjin, which was a hotel, to an independent third party, for a cash consideration of RMB9.3 million (equivalent to approximately HK$11.7 million). The transaction was completed on 24 February 2014.

Save for the above, the Group did not have any significant investment, material acquisition or disposal during the twelve months ended 31 March 2014.

Employees and remuneration policies

As at 31 March 2014, the Group had a total of 45 employees, including executive Directors. The Group's remuneration policy and packages for the executive Directors, non-executive Directors and senior management are reviewed and determined/recommended by the RQN Committee and approved by the Board on an annual basis while that for other employees' are reviewed and approved by the chief executive officer. The Group remunerates its employees based on industry practice and the performance of each individual. The Group also offers discretionary bonuses, medical insurance, and defined contribution retirement plans, and provides a share option scheme for its employees and executive Directors.

Currency and Interest Rate Structure

The Group had certain foreign currency monetary assets and liabilities which were denominated in RMB and USD. The Group monitored foreign exchange exposure and would consider hedging significant foreign currency exposure should the need arise. As at 31 March 2014, the Group did not enter into any agreement to hedge against the foreign exchange risk.

The Group's interest rate risk arose primarily from RMB and USD. All the borrowings and deposits were on a floating and fixed rate basis.

The Group did not use financial derivatives to hedge against the interest rate risk. However, the interest rate profile of the Group's net deposits (being bank deposits and amount due from a related company less interest-bearing financial liabilities) was closely monitored by management.

(iii) For the twelve months ended 31 March 2013

Business review

For the twelve months ended 31 March 2013, the Group recorded turnover of approximately HK$6.6 million which mainly comprised revenue from hotel operations of approximately HK$3.1 million and rental income of approximately HK$3.5 million. The Group's loss after tax was approximately HK$72.5 million which was mainly consist of finance costs of approximately HK$46.6 million and other net operating expenses of approximately HK$14.1 million.

Liquidity, financial resources and capital structure

As at 31 March 2013, the Group's borrowings were approximately HK$448.4 million. All of the Group's available banking facilities have been utilised. The Group's equity was approximately HK$5.1 million as at 31 March 2013.

Commitments

As at 31 March 2013, the Group had lease commitments where the Group was the lessor of approximately HK$42.1 million and lease commitments where the Group was the lessee of approximately HK$2.3 million. The Group had capital commitments of HK$0.8 million as at 31 March 2013.

Employees and remuneration policies

As at 31 March 2013, the Group had a total of 85 employees, including executive Directors. The Group's remuneration policy and packages for the executive Directors and senior management are reviewed and recommended by the RQN Committee and approved by the Board on an annual basis while that for other employees' are reviewed and approved by the chief executive officer. The Group remunerates its employees based on industry practice and the performance of each individual. The Group also offers discretionary bonuses, medical insurance, and defined contribution retirement plans, and provides a share option scheme for its employees and executive Directors.

Currency and Interest Rate Structure

The Group had certain foreign currency monetary assets and liabilities which were denominated in RMB and USD. The Group monitored foreign exchange exposure and would consider hedging significant foreign currency exposure should the need arise. As at 31 March 2013, the Group did not enter into any agreement to hedge against the foreign exchange risk.

The Group's interest rate risk arose primarily from RMB and USD. All the borrowings and deposits were on a floating and fixed rate basis.

The Group did not use financial derivatives to hedge against the interest rate risk. However, the interest rate profile of the Group's net deposits (being bank deposits and amount due from a related company less interest-bearing financial liabilities) was closely monitored by management.

(iv) For the twelve months ended 31 March 2012

Business review

For the twelve months ended 31 March 2012, the Group recorded turnover of approximately HK$6.4 million which mainly comprised revenue from hotel operations of approximately HK$3.9 million and rental income of approximately HK$2.5 million. The Group's loss after tax was approximately HK$52.4 million which was mainly consist of finance costs of approximately HK$48.6 million and other net operating expenses of approximately HK$28.3 million.

Liquidity, financial resources and capital structure

As at 31 March 2012, the Group's borrowings were approximately HK$441.7 million. All of the Group's available banking facilities have been utilised. The Group's equity was approximately HK$69.9 million as at 31 March 2012.

Commitments

As at 31 March 2012, the Group had lease commitments where the Group was the lessor of approximately HK$44.3 million and lease commitments where the Group was the lessee of approximately HK$1.1 million. The Group had capital commitments of HK$7.6 million as at 31 March 2012.

Employees and remuneration policies

As at 31 March 2012, the Group had a total of 92 employees, including executive Directors. The Group's remuneration policy and packages for the executive Directors and senior management are reviewed and recommended by the RQN Committee and approved by the Board on an annual basis while that for other employees' are reviewed and approved by the Group chief executive officer. The Group remunerates its employees based on industry practice and the performance of each individual. The Group also offers discretionary bonuses, medical insurance, and defined contribution retirement plans, and provides a share option scheme for its employees and executive Directors.

Currency and Interest Rate Structure

The Group had certain foreign currency monetary assets and liabilities which were denominated in RMB and USD. The Group monitored foreign exchange exposure and would consider hedging significant foreign currency exposure should the need arise. As at 31 March 2012, the Group did not enter into any agreement to hedge against the foreign exchange risk.

The Group's interest rate risk arose primarily from RMB and USD. All the borrowings and deposits were on a floating and fixed rate basis.

The Group did not use financial derivatives to hedge against the interest rate risk. However, the interest rate profile of the Group's net deposits (being bank deposits and amount due from a related company less interest-bearing financial liabilities) was closely monitored by management.

The following is the text of a report prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, Lau & Au Yeung C.P.A. Limited.

LAU AU YEUNG 劉歐陽會計師事務所有限公司 LAU & AU YEUNG C.P.A. LIMITED

Lau & Au Yeung C.P.A. Limited
Member of Reanda International
21/F, Tai Yau Building
181 Johnston Road
Wanchai, Hong Kong

3 February 2015

The Board of Directors
Crown International Corporation Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Zhongshan Hualian Industrial Development Company Limited（中山市華聯實業開發有限公司）("Hualian"), which comprises the statements of financial position of Hualian as at 31 December 2011, 2012 and 2013 and 31 October 2014, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of Hualian for the years ended 31 December 2011, 2012 and 2013 and the ten months ended 31 October 2014 (the "Relevant Periods") together with notes thereto. The Financial Information has been prepared by the sole director of Hualian for inclusion in Appendix II to the circular dated 3 February 2015 (the "Circular") issued by Crown International Corporation Limited (the "Company") in connection with the proposed acquisition of 100% equity interest in Hualian by Crown International Resort Limited, an indirectly wholly-owned subsidiary of the Company.

Hualian was established in the People's Republic of China (the "PRC") with limited liability on 10 July 1993. Hualian is principally engaged in the business of property development. The address of the registered office and principle place of business of Hualian is 83, Zhong Shan San Lu, Zhong Shan, Guangdong, the PRC.

The statutory financial statements of Hualian for the years ended 31 December 2011, 2012 and 2013 were prepared in accordance with the applicable accounting principles and regulations in the PRC, and were audited by Zhongshan Weide Certified Public Accountants for 2011 and 2013, and Zhongshan Zhongxin CPA Company Limited for 2012, both firms are registered in the PRC, respectively.

For the purpose of this report, the sole director of Hualian has prepared the financial statements of Hualian for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have carried out independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information of Hualian for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustment was considered necessary to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the sole director of Hualian who approved their issue. The sole director of Hualian is responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

OPINION

In our opinion, on the basis of preparation set out in note 1 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Hualian as at 31 December 2011, 2012 and 2013 and 31 October 2014 and of the results and cash flows of Hualian for the Relevant Periods.

EMPHASIS OF MATTER — MATERIAL UNCERTAINTY REGARDING THE GOING CONCERN ASSUMPTION

Without qualifying our opinion, we draw attention to note 1 of Financial Information which indicates that Hualian had accumulated losses of approximately RMB17,584,000, RMB17,801,000, RMB31,015,000 and RMB39,254,000 as at 31 December 2011, 2012 and 2013 and 31 October 2014 respectively; and Hualian had capital commitments in respect of the property under development in the PRC of approximately RMB20,003,000 (note 21 of the Financial Information) as at 31 October 2014. These conditions, along with other matters set out in note 1 of the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about Hualian's ability to continue as a going concern.

CORRESPONDING FINANCIAL INFORMATION

The comparative statements of profit or loss and other comprehensive income, cash flows and changes in equity of Hualian for the ten months ended 31 October 2013 together with the notes thereon have been extracted from Hualian's unaudited financial information for the same period (the "31 October 2013 Financial Information") which was prepared by the sole director of Hualian solely for the purpose of this report. We have reviewed the 31 October 2013 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 31 October 2013 Financial Information consisted of making enquires, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 October 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 31 October 2013 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

I. FINANCIAL INFORMATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Ten months ended 31 October	
		2011	2012	2013	2013	2014
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Turnover		–	–	–	–	–
Other income	*7*	32	70	17	15	1
Distribution costs		(1,737)	(6)	(6)	(5)	(3)
Administrative expenses		(194)	(229)	(429)	(366)	(456)
Other operating expenses		(540)	(52)	(12,796)	(11,541)	(7,781)
Loss and total comprehensive loss for the year/period	*8*	(2,439)	(217)	(13,214)	(11,897)	(8,239)

Note: *Loss per share of Hualian for the years ended 31 December 2011, 2012 and 2013, and ten months ended 31 October 2013 and 2014 are not presented as such information is not considered meaningful in the context of this report.*

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 October
		2011	2012	2013	2014
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*12*	4	4	–	51
Current assets					
Properties under development	*14*	158,075	211,893	237,052	238,167
Other receivables	*13*	1,100	518	356	246
Business tax and surcharge prepaid		202	513	542	542
Prepayments		997	784	397	347
Cash and cash equivalents	*15*	1,729	15,249	281	278
		162,103	228,957	238,628	239,580
Current liabilities					
Trade payables	*16*	618	5,270	13,806	12,435
Other payables and accruals	*17*	2,895	5,715	5,240	6,380
Receipts in advance		2,626	35,166	37,853	37,699
Amounts due to shareholders	*18*	130,199	153,741	151,403	153,249
Provisions	*19*	3,319	6,836	19,627	27,408
		139,657	206,728	227,929	237,171
Net current assets		22,446	22,229	10,699	2,409
Total assets less current liabilities		22,450	22,233	10,699	2,460
Capital and reserves					
Paid in capital	*20*	40,034	40,034	41,714	41,714
Accumulated losses		(17,584)	(17,801)	(31,015)	(39,254)
Total equity		22,450	22,233	10,699	2,460

STATEMENTS OF CHANGES IN EQUITY

	Paid in capital	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2011	40,034	(15,145)	24,889
Loss and total comprehensive loss for the year	–	(2,439)	(2,439)
As at 31 December 2011 and 1 January 2012	40,034	(17,584)	22,450
Loss and total comprehensive loss for the year	–	(217)	(217)
As at 31 December 2012 and 1 January 2013	40,034	(17,801)	22,233
Injection of capital	1,680	–	1,680
Loss and total comprehensive loss for the year	–	(13,214)	(13,214)
As at 31 December 2013 and 1 January 2014	41,714	(31,015)	10,699
Loss and total comprehensive loss for the period	–	(8,239)	(8,239)
As at 31 October 2014	41,714	(39,254)	2,460

	Paid in capital	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2013	40,034	(17,801)	22,233
Injection of capital	1,680	–	1,680
Loss and total comprehensive loss for the period	–	(11,897)	(11,897)
As at 31 October 2013	41,714	(29,698)	12,016

STATEMENTS OF CASH FLOWS

	Year ended 31 December			Ten months ended 31 October	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
OPERATING ACTIVITIES					
Loss for the year/period	(2,439)	(217)	(13,214)	(11,897)	(8,239)
Adjustments for:					
Bad debts written off	540	–	–	–	–
Depreciation	–	–	–	–	1
Interest income	(23)	(25)	(17)	(15)	(1)
Loss on written off of property, plant and equipment	–	–	4	4	–
Provisions for compensation	–	–	12,791	11,537	7,781
Operating cash outflow before movements in working capital	(1,922)	(242)	(436)	(371)	(458)
Increase in properties under development	(85,584)	(53,818)	(25,159)	(23,186)	(1,115)
Decrease in other receivables	1	582	162	115	110
Increase in business tax and surcharge prepaid	(202)	(311)	(29)	(29)	–
Decrease in prepayments	19,172	213	387	335	50
Increase/(decrease) in trade payables	209	4,652	8,536	7,116	(1,371)
Increase/(decrease) in other payables and accruals	984	2,820	(475)	(515)	1,140
Increase/(decrease) in receipts in advance	2,626	32,540	2,687	435	(154)
Increase in provisions	3,319	3,517	–	–	–
NET CASH USED IN OPERATING ACTIVITIES	(61,397)	(10,047)	(14,327)	(16,100)	(1,798)
INVESTING ACTIVITIES					
Payment for the purchase of property, plant and equipment	–	–	–	–	(52)
Interest received	23	25	17	15	1
NET CASH GENERATED FROM INVESTING ACTIVITIES	23	25	17	15	(51)
FINANCING ACTIVITIES					
Advance from/(repayment to) shareholders	59,438	23,542	(2,338)	923	1,846
Proceeds from injection of capital	–	–	1,680	1,680	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	59,438	23,542	(658)	2,603	1,846
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,936)	13,520	(14,968)	(13,482)	(3)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	3,665	1,729	15,249	15,249	281
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	1,729	15,249	281	1,767	278

NOTES TO THE FINANCIAL INFORMATION

1. Corporation information and basis of presentation

Hualian is a limited liability company established in the PRC on 10 July 1993. The address of its registered office and principal place of business is 83, Zhong Shan San Lu, Zhong Shan, Guangdong, the PRC. The principal activity of Hualian is property development.

At the date of this report, the ultimate holding company and parent company of Hualian is Sino Oasis Oversea Limited ("Sino Oasis"), a company incorporated in Samoa.

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of Hualian.

The Financial Information has been prepared on a going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that Hualian had accumulated losses of approximately RMB17,584,000, RMB17,801,000, RMB31,015,000 and RMB39,254,000 as at 31 December 2011, 2012 and 2013 and 31 October 2014 respectively; and Hualian had capital commitments in respect of the property under development in the PRC of approximately RMB20,003,000 (note 21 of the Financial Information) as at 31 October 2014. These conditions indicate the existence of a material uncertainty which may cast significant doubt about Hualian's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of businesses. The Financial Information has been prepared on a going concern basis in the next twelve months, the validity of which depends upon the continuing financial support from the shareholders of Hualian at a level sufficient to finance the commitments as well as working capital requirements of Hualian. The shareholder of Hualian has agreed to provide adequate funds for Hualian to meet its liabilities as they fall due.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Hualian has consistently adopted all the relevant Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and the related interpretations issued by the HKICPA which are effective for Hualian's financial year beginning on 1 January 2014.

Hualian has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[2]
HKFRS 9 (2014)	Financial Instruments[4]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[2]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptance Methods of Depreciation and Amortisation[2]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[2]
Amendments to HKAS 19	Defined Benefit Plans – Employee Contributions[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[2]

1 *Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.*

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

3 *Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.*

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

The sole director of Hualian anticipates that, except as described below, the application of other new and revised HKFRSs will have no material impact on the results and the financial position of Hualian.

3. Significant accounting policies

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and service.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or more advantageous) market between market participants at the measurement date under current market condition (i.e. an exit price), regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, Hualian takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less subsequent accumulated depreciation and impairment losses, if any.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Electronic equipment	5 years
Motor vehicles	5 years

Properties under development

Properties under development are stated at the lower of cost and net realisable value.

Cost comprises the costs of land use rights, construction costs, borrowing costs capitalised and other direct development expenditure.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and applicable selling expenses.

Impairment of non-financial assets

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

Financial assets

Loans and receivables is the sole category of financial assets of the company. The classification depends on the purposes for which the financial assets were acquired. Hualian determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. Hualian's loans and receivables comprise "other receivables" and "cash and cash equivalents" in the statement of financial position.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value, and transaction costs are expensed in profit or loss, and subsequently carried at amortised cost using the effective interest method.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of financial assets carried at amortised cost

Hualian assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a 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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. If collection of other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Current and deferred income tax

The income tax expense comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted by the end of the reporting period in the countries where Hualian operates and generates taxable income. Hulian periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Retirement benefit costs

Payments to the PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense when the employees have rendered service entitling them to the contributions.

Provisions

Provisions are recognised when Hualian has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Revenue recognition

Hualian recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to Hualian; and when specific criteria have been met. For the Relevant Periods, Hualian's sole major income is interest income which is recognised using the effective interest method. When a loan and receivable is impaired, Hualian reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

4. Key sources of estimation uncertainty

In the application of Hualian's accounting policies, which are described in note 3, the sole director of Hualian is required to make estimates and assumptions about the carrying amounts of assets, liabilities, revenue and expenses reported and disclosures made in the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may 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.

The following are the key assumptions concerning the future and 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 the next financial year.

Estimated net realisable value of properties under development

In determining whether allowances should be made to Hualian's properties under development, the sole director of Hualian takes into consideration the current market environment and the estimated market value (i.e. the estimated selling price less estimated costs to sell) less estimated costs to completion of the properties. An allowance is made if the estimated market value is less than the carrying amount. If the actual net realisable value of properties under development is less than expected as a result of a change in market condition and/or significant variation in the budgeted development cost, material provision for impairment losses may result. As at 31 December 2011, 2012 and 2013 and 31 October 2014, the carrying amounts of properties under development were approximately RMB158,075,000, RMB211,893,000, RMB237,052,000 and RMB238,167,000 respectively. No impairment was provided throughout the Relevant Periods.

Estimated impairment of other receivables

When there is objective evidence, the sole director of Hualian assesses the impairment loss by taking into consideration the estimation of future cash flows. The amount of the impairment 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). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, 2012 and 2013 and 31 October 2014, the carrying amounts of other receivables are approximately RMB1,100,000, RMB518,000, RMB356,000 and RMB246,000 respectively. No impairment was provided throughout the Relevant Periods.

5. Capital risk management

Hualian manages its capital to ensure Hualian will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity balances. Hualian's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Hualian consists of net debt, which includes amounts due to holding companies, net of cash and cash equivalents and equity attributable to owners of Hualian, comprising paid in capital and reserves.

The sole director of Hualian reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. Based on the recommendations of the sole director, Hualian will balance its overall capital structure through payment of dividend, injection of new capital as well as the raising of new debts or the repayment of existing debts.

6. Financial instruments

a) *Categories of financial instruments*

	As at 31 December			As at 31 October
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	2,829	15,767	637	524
Financial liabilities				
At amortised costs	133,712	164,726	170,449	172,064

b) *Financial risk management objectives and policies*

Hualian's major financial instruments include other receivables, cash and cash equivalents and trade payables, other payables and accruals, and amounts due to shareholders. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of Hualian manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

As most of Hualian's monetary assets and liabilities are denominated in RMB and Hualian conducts its business transactions principally in RMB, the currency risk of Hualian is not significant and Hualian currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

In the opinion of the sole director of Hualian, the currency risk is minimal and thus, no sensitivity analysis is presented.

(ii) Interest rate risk

Hualian was exposed to cash flow interest rate risk relates to bank balances carried at prevailing market rate. Hualian's bank deposits are short-term in nature and such exposure of the cash flow interest rate risk is minimal and thus no sensitivity to interest rate risk is presented.

Credit risk

As at the end of each reporting period, Hualian's maximum exposure to credit risk, which will cause a financial loss to Hualian due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

Hualian has no significant concentration of credit risk, with exposures spreading over a number of counterparties.

Hualian reviews the recoverable amount of each individual debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of Hualian considers that Hualian's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by authorised credit rating agencies.

Liquidity risk

In the management of the liquidity risk, Hualian monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance Hualian's operations and mitigate the effects of fluctuations in cash flows.

The following table details Hualian's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Hualian can be required to pay.

The table includes both interest and principal cash flows.

Liquidity risk tables

	Within one year	**Total undiscounted cash flow**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2011			
Trade payables	618	618	618
Other payables and accruals	2,895	2,895	2,895
Amounts due to shareholders	130,199	130,199	130,199
	133,712	133,712	133,712
As at 31 December 2012			
Trade payables	5,270	5,270	5,270
Other payables and accruals	5,715	5,715	5,715
Amounts due to shareholders	153,741	153,741	153,741
	164,726	164,726	164,726

	Within one year	Total undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2013			
Trade payables	13,806	13,806	13,806
Other payables and accruals	5,240	5,240	5,240
Amounts due to shareholders	151,403	151,403	151,403
	170,449	170,449	170,449

	Within one year	Total undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*
As at 31 October 2014			
Trade payables	12,435	12,435	12,435
Other payables and accruals	6,380	6,380	6,380
Amounts due to shareholders	153,249	153,249	153,249
	172,064	172,064	172,064

(c) Fair values of financial assets and liabilities

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis are determined in accordance with generally accepted pricing model based on discounted cash flow analysis.

The sole director of Hualian considers that the carrying amounts of these financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values due to short-term or immediate maturities.

7. Other income

	Year ended 31 December			Ten months ended 31 October	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank Interest income	23	25	17	15	1
Sundry income	9	45	–	–	–
	32	70	17	15	1

8. Loss for the year/period

Loss for the year/period has been arrived at after charging:

	Year ended 31 December			Ten months ended 31 October	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Auditors' remuneration	2	20	23	23	–
Bad debts written off	540	–	–	–	–
Depreciation	–	–	–	–	1
Loss on written off of property, plant and equipment	–	–	4	4	–
Provisions for compensation	–	–	12,791	11,537	7,781
Rental expenses	14	10	45	2	–

9. Employee benefit expense

	Year ended 31 December			Ten months ended 31 October	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors' remuneration					
– fee	–	–	–	–	–
– social security costs	–	–	–	–	–
– other emoluments	–	–	–	–	–
	–	–	–	–	–
Wages and salaries	473	512	518	396	387
Social security costs	15	14	12	10	9
	488	526	530	406	396

No emoluments were paid by Hualian to any director as an incentive payment for joining Hualian or as compensation for loss of office during the Relevant Periods. No director's emoluments were waived during the Relevant Periods.

10. Income tax expenses

Under the Law of the PRC on Enterprise Income Tax Law (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Hualian is 25% for the Relevant Periods.

No income tax expense was provided for the Relevant Periods and ten months ended 31 October 2014 as the estimated assessable profit of Hualian for the year ended 31 December 2011 and 2012 was fully off-set by tax loss brought forward from previous years, and there is no estimated assessable profit for the year ended 31 December 2013 and 10 months ended 31 October 2014.

The tax charge for the Relevant Periods can be reconciled to the loss before tax per the statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Ten months ended 31 October	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loss before tax	2,439	217	13,214	11,897	8,239
Tax at the domestic income tax rate of 25%	610	54	3,304	2,974	2,060
Tax effects of:					
– Expenses not deductible for tax purposes	(143)	(15)	(3,198)	(2,884)	(1,946)
– Unrecognised deferred tax arising from temporary difference	(394)	–	(106)	(90)	(114)
– Set-off with Business tax paid	–	78	–	–	–
– Utilisation of previously unrecognised tax losses	26	35	–	–	–
– Deemed profit of sales in advance	(99)	(152)	–	–	–
Tax charge	–	–	–	–	–

No provision for deferred taxation has been made as there is no significant timing difference in tax provision or tax loss which is expected to be crystallised in the foreseeable future.

As at 31 December 2011, 2012 and 2013 and 31 October 2014, Hualian had estimated unused tax loss of approximately RMB197,000, RMB57,000, RMB57,000 and RMB57,000 respectively available for offset against future profits. The unused tax losses will expire after five years from the year of assessment to which they relate.

11. Dividends

No dividend was paid or proposed during the Relevant Periods, nor has any dividend been proposed since 31 October 2014.

12. Property, plant and equipment

	Motor vehicles	Electronic equipment	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost			
As at 1 January 2011 and 31 December 2011, 2012	–	8	8
Written off	–	(8)	(8)
As at 31 December 2013 and 1 January 2014	–	–	–
Additions	52	–	52
As at 31 October 2014	52	–	52
Accumulated depreciation			
As at 1 January 2011 and 31 December 2011, 2012	–	4	4
Written off	–	(4)	(4)
As at 31 December 2013 and 1 January 2014	–	–	–
Depreciation for the period	1	–	1
As at 31 October 2014	1	–	1
Net book value			
As at 31 December 2011	–	4	4
As at 31 December 2012	–	4	4
As at 31 December 2013	–	–	–
As at 31 October 2014	51	–	51

13. Other receivables

The carrying values of other receivables approximate to their fair values due to its short term maturities.

Other receivables are denominated in Renminbi, neither past due nor impaired.

Hualian does not hold any collateral over these balances.

14. Properties under development

	As at 31 December			As at 31 October
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of year/period	72,491	158,075	211,893	237,052
Additions	85,584	53,818	25,159	1,115
At the end of the year/period	158,075	211,893	237,052	238,167

	As at 31 December			As at 31 October
	2011	**2012**	**2013**	**2014**
Represented by:	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Land use right	7,305	7,305	7,305	7,305
Construction costs and capitalised expenditure	150,770	204,588	229,747	230,862
	158,075	211,893	237,052	238,167

The carrying amounts of properties under development situated on leasehold land in the PRC are as follows:

	As at 31 December			As at 31 October
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Medium-term lease	158,075	211,893	237,052	238,167

According to the accounting policy of Hualian, properties under development are classified as current assets as the relevant property development projects are expected to be sold or realised as part of the normal operating cycle.

The carrying amounts of properties under development of approximately RMB158,075,000, RMB211,893,000, RMB237,052,000 and RMB238,167,000 as at 31 December 2011, 2012 and 2013 and 31 October 2014 respectively are expected not to be realised within the next twelve months from the end of the Relevant Periods.

There was a dispute between Hualian and the contractor, 宏潤建設集團股份有限公司 ("宏潤"). 宏潤 claimed that 1) Hualian has not made progress payment according to the progress of construction works, 2) Hualian should bear the responsibility of delay in checking and accepting the completed works, 3) Hualian should bear the additional costs arising in the course of construction and 4) Hualian should pay interest to 宏潤. Thus, 宏潤 took legal action against Hualian. However, the court declared that it was not in a position to judge whether Hualian should pay for the outstanding amount immediately. Instead, the court had issued an order on 12 July 2013 to sequestrate 139 units in the properties under development for 2 years until 12 July 2015. The estimated relevant book value of these 139 units is approximately RMB25,416,000.

15. Cash and cash equivalents

	As at 31 December			As at 31 October
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	1,729	15,249	281	278
Maximum exposure to credit risk	1,702	15,240	273	277

Cash and cash equivalents comprised of cash on hand and deposits with an original maturity of three months or less.

Bank balances and cash are all denominated in RMB. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulation and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations.

16. Trade payables

The following is an aged analysis of Hualian's trade payables presented based on the invoice date at the end of reporting period:

	As at 31 December			As at 31 October
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	618	4,895	9,516	455
91 – 180 days	–	–	–	–
181 – 365 days	–	–	–	8,810
Over 1 year	–	375	3,750	3,170
	618	5,270	13,266	12,435

The carrying values of trade payables approximates to their fair values due to their short term maturities. All trade payables are denominated in Renminbi.

Trade payables were accrued based on the terms of the relevant agreements and project progress and certain trade payables were not due for payment as at the end of each of the reporting period. Hualian has financial risk management policies in place to ensure that all trade payables are settled within the credit timeframe.

17. Other payables and accruals

The carrying values of other payables and accruals approximates to their fair values due to their short term maturities. Other payables and accruals are denominated in Renminbi.

18. Amounts due to shareholders

	As at 31 December			As at 31 October
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
雲南凱茵房地產開發有限公司	108,995	34,394	–	–
華泰利集團有限公司	21,204	119,347	151,403	–
Sino Oasis Oversea Limited	–	–	–	153,249
	130,199	153,741	151,403	153,249

The amounts due to shareholders are unsecured, interest free and repayable on demand.

19. Provisions

The details of provisions made are as follows:

	As at 31 December			As at 31 October
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Compensation for flats contracted for sale#	–	–	12,791	13,072
Compensation for cancellation of operating lease*	–	–	–	7,500
Additional costs of construction in dispute	3,319	6,836	6,836	6,836
	3,319	6,836	19,627	27,408

Hualian has signed sale and purchase agreements to sell 17 flats to third parties in 2011 and 2012. According to the sale and purchase agreements, the flats should be handed over to the buyers in December 2012 or 30 June 2013. However, up to 31 October 2014, the flats were not ready for handing over. Accordingly, interest should be paid to compensate the buyer for delayed handing over. In addition, another sale and purchase agreement signed with the ex-shareholder, 雲南凱茵房地產開發有限公司, for the sale of 40 flats was deemed as cancelled and a compensation of RMB12,600,000 was provided for such cancellation.

* *In May 2012, Hualian signed a tenancy agreement with 佛山市優越百貨管理有限公司 ("優越百貨") for the shopping mall. However, 優越百貨 was not satisfied with the condition and the ancillary facilities of the shopping mall. In May 2014, 優越百貨 sent a letter to Hualian to cancel the tenancy agreement and claimed for RMB7,500,000 compensation in accordance with the agreement.*

20. Paid in capital

	As at 31 December			As at 31 October
	2011	2012	2013	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Registered capital	40,000	40,000	50,000	50,000

	As at 31 December			As at 31 October
	2011	2012	2013	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Paid in capital				
As at 31.12.2011, 2012: HK$40M				
As at 31.12.2013 and 31.10.2014: HK$42.074M	40,034	40,034	41,714	41,714

Hualian was established on 10 July 1993 with registered capital of HK$80,000,000. HK$40,000,000 has been paid up to 20 May 1999. By a directors' resolution on 12 June 2006, the registered capital was reduced to HK$40,000,000. Later, by a directors' resolution on 7 January 2013, the registered capital was increased to HK$50,000,000, of which HK$42,074,000 has been paid up to 21 January 2013. The latest capital verification report was performed by 中山市超越會計師事務所, a CPA firm registered in the PRC, on 24 June 2013. According to the memorandum of association, the outstanding capital of HK$7,926,000 should be paid on or before 28 June 2015.

21. Capital commitment

At the end of the reporting periods, Hualian had the following capital commitments for properties under development:

	As at 31 December			As at 31 October
	2011	2012	2013	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for	42,010	38,052	18,373	20,003

22. Contingent liabilities

宏潤, being the major constructor of the property under development, claimed that additional construction costs of RMB16,940,000 were incurred and should be paid to it immediately. 宏潤 has taken legal action to claim for the additional cost, progress payment and interest bearing at 0.021% per day based on the outstanding payments. However, Hualian did not agree with the calculation of 宏潤 and estimated that the additional construction costs should only be RMB6,836,000, for which provisions has already been made (see note 19). Hualian also did not agree with the progress payment claimed since the checking and acceptance procedures had not been completed. If Hualian loses the legal case, liability of Hualian will increase by RMB10,323,000 together with the corresponding interest.

As at 31 October 2014, Hualian had 7 employees but no employment contracts were signed with them. In addition, Hualian has not paid certain social security and housing provident fund contributions for the employees. As advised by Hualian's PRC legal advisor, Hualian may be ordered by the relevant PRC authorities to pay additional wages or economic compensation to the staffs for their past employment, as well as relevant social security, housing provident fund contributions and overdue fine within a stipulated deadline. The maximum relevant social security, housing provident fund contributions and overdue fine are estimated to be RMB240,000. Based on the assessment by the management, the probability of being ordered to pay the aforesaid amount is remote and thus no provision is made.

II. EVENT AFTER REPORTING PERIOD

There are no significant events occurred subsequent to 31 October 2014 and up to the date of this report.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Hualian in respect of any period subsequent to 31 October 2014 and up to the date of this report.

Yours faithfully,

Lau & Au Yeung C.P.A. Limited
Certified Public Accountants
Hong Kong

Au Yeung Tin Wah
Practising Certificate Number P02343

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma financial information of Crown International Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Zhongshan Hualian Industrial Development Company Limited ("Hualian") (together with the Group, hereinafter referred to as the "Enlarged Group") (the "Unaudited Pro Forma Financial Information"), which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of 100% equity interests in Hualian (the "Acquisition").

The Unaudited Pro Forma Financial Information has been prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of illustrating the effect of the Acquisition as if the Acquisition had been completed on 30 September 2014 or 1 April 2013, as appropriate.

The unaudited pro forma consolidated statement of financial position is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2014, which has been extracted from the Company's published interim financial report for the six months ended 30 September 2014 and the audited statement of financial position of the Target Group as at 30 June 2014 as extracted from the accountants' report of the Target Group thereon set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisition, as if the Acquisition had been completed on 30 September 2014.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared based on (i) the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 March 2014 as extracted from the published annual report of the Company for the year ended 31 March 2014; and (ii) the audited statement of profit or loss and other comprehensive income and the audited statement of cash flows of the Target Group for the year ended 31 December 2013 as extracted from the accountants' report of the Target Group as set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisition, as if the Acquisition had been completed on 1 April 2013. The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties. Accordingly, because of its nature, it does not purport to predict what the results or cash flows of the Enlarged Group will be after the Acquisition or the financial position that will be attained upon completion of the Acquisition.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group included in the interim report of the Company for the six months ended 30 September 2014 and the annual report of the Company for the year ended 31 March 2014, the accountants' report of Hualian as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

As at 30 September 2014

	Group as at 30/9/2014 (Unaudited) *HK$'000* *(Note 1)*	Hualian as at 31/10/2014 (Audited) *HK$'000* *(Note 2)*	Pro forma adjustments: Reclassification of properties under development *HK$'000* *(Note 3)*	Completion of the Acquisition *HK$'000* *(Note 4)*	Revaluation of investment properties *HK$'000* *(Note 5)*	Business combinations *HK$'000* *(Note 5)*	The Enlarged Group (Unaudited) *HK$'000* *(Note 6)*
Non-current assets							
Property, plant and equipment	100,443	64					100,507
Land use rights	5,286	–					5,286
Goodwill	951	–					951
Investment properties	98,423	–	301,091		1,267,609		1,667,123
Construction in progress	174	–					174
Available-for-sale financial assets	1,128	–					1,128
Investment in subsidiaries	–	–		1,008,000		(1,008,000)	–
	206,405	64					1,775,169
Current assets							
Properties under development	–	301,091	(301,091)				–
Receivables, prepayments and deposits	353,388	1,435					354,823
Bank balances and cash	18,551	351		(77,498)			(58,596)
	371,939	302,877					296,227
Current liabilities							
Payables, accruals and provisions	27,447	299,831		12,200		(106,094)	233,384
Income tax payable	606	–					606
Borrowings	289,304	–					289,304
	317,357	299,831					523,294
Net current assets/(liabilities)	54,582	3,046					(227,067)
Total assets less current liabilities	260,987	3,110					1,548,102
Non-current liabilities							
Deferred income tax liabilities	13,124	–				316,902	330,026
Notes payable	120,273	–					120,273
Payables	–	–		612,200			612,200
	133,397	–					1,062,499
Net assets	127,590	3,110					485,603
Equity							
Share capital and other statutory capital reserves	274,721	42,074		308,000		(42,074)	582,721
Other reserves	(147,131)	(38,964)		(1,898)	1,267,609	(1,176,734)	(97,118)
Total equity	127,590	3,110					485,603

Notes to unaudited pro forma consolidated statement of financial position:

1. The balances are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2014 as set out in the interim report 2014/2015.

2. The audited statement of financial position of Hualian is extracted from the accountant's report as set out in Appendix II to this circular, and converted to the presentation currency of the Group at RMB1.00 to HK$1.2642.

3. Upon the completion of Acquisition, development of the Property should have been completed in accordance with the Sale and Purchase Agreement and the Supplemental Sale and Purchase Agreement. The adjustment represents the reclassification of the Property from properties under development to investment properties.

   The Property is intended to be held for long term to earn rentals and/or for capital appreciation and shall be carried at fair value at the completion date of the Acquisition. Therefore, fair value adjustment was made in note 5 below.

4. The adjustment represents the consideration and transaction cost in relation to the Acquisition.

5. Upon completion of the Acquisition, the identifiable assets and liabilities of Hualian will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" ("HKFRS 3").

   For the purpose of the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the identifiable assets and liabilities of Hualian as at 31 October 2014 are stated at their fair values as at 31 October 2014.

   The fair value of the property, plant and equipment and leasehold land is estimated by the Directors with reference to the valuation report issued by Peak Vision Appraisals Limited. The valuation method for valuing the fair value of the property, plant and equipment and leasehold land is the Market Approach as disclosed in Appendix IV of this circular in which value was arrived by reference to comparable sales evidence as available in the relevant market and, where appropriate, on the basis of capitalisation of the net rental income with due allowance for the reversionary income potential of the Property.

Since the fair value of the Property at the date of Completion may be substantially different from the fair value so arrived at as aforesaid in preparing this unaudited pro forma financial information, the actual financial impact arising from the Acquisition may be different from the amounts presented here and the difference may be significant.

The amount of negative goodwill which represents the Group's share of the fair values of the net identifiable assets of Hualian over the cost of acquisition, is approximately HK$51,911,000, which is analysed as follows:

	Note	*HK$'000*
Consideration		
– Cash		700,000
– Consideration Shares		
(440 million shares of the Company)	*a*	308,000
		1,008,000
Less: Carrying amount of the net assets acquired		3,110
Less: Liabilities taken up by the Vendor	*b*	106,094
Less: Fair value adjustments – the Property	*c*	1,267,609
Add: Deferred tax liabilities as a result of the fair value adjustments	*d*	316,902
Negative goodwill	*e*	(51,911)

Notes

a No valuation on the Consideration Shares has been performed for the purpose of the unaudited pro forma financial information, as in the opinion of the Directors, it is more meaningful to present the allocation of purchase cost by reference to the Sale and Purchase Agreement.

Since the fair values of the identifiable assets and liabilities of Hualian and the fair value of the Consideration as at the date of Completion may be different from their respective fair values used in the preparation of the above unaudited pro forma consolidated statement of financial position of the Enlarged Group, the actual amount of goodwill may be different from the estimated amount shown in this Appendix and the difference may be significant.

b Refer to the Supplemental Sale and Purchase Agreement dated 22 January 2015, the Remaining Liabilities and the Actual Completion Costs shall be borne by the Vendor. As at 31 October 2014, liabilities borne by the Vendor should be RMB83,922,000 (equivalent to HK$106,094,000 converted at RMB1.00 to HK$1.2642) in the accountant's report as set out in Appendix II to this circular.

c The Property is recognised at RMB1,245 million (equivalent to HK$1,568.70 million converted at RMB1.00 to HK$1.26), being the fair value of the Property as at 31 December 2014 with reference to the valuation report issued by Peak Vision Appraisals Limited as disclosed in Appendix IV of this circular. Fair value upward adjustment of the Property amounts to HK$1,267,609,000.

d Related deferred tax liabilities arising from fair value surplus on the Property are HK$316,902,000 based on the applicable tax rate of 25% in the PRC.

e When preparing the Unaudited Pro forma Financial Information, as per HKFRS 3 paragraph 32, goodwill was measured and initially recognised as the full difference between (i) and (ii) below:

(i) the aggregate of:

(1) the consideration transferred measured in accordance with this HKFRS, which generally requires acquisition-date fair value;

(2) the amount of any non-controlling interest in the acquiree measured in accordance with this HKFRS; and

(3) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(ii) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this HKFRS.

The fair values of the identifiable assets and liabilities acquired have been assessed by the Directors with reference to the valuation report prepared by Peak Vision Appraisals Limited. The fair value of the Consideration has also been assessed by the Directors which is disclosed in note 5(a) above. Negative goodwill was recognised in the profit and loss at the acquisition date.

The reporting accountant has reviewed the aforesaid calculation and basis and by reference to relevant valuation report and agreements, the reporting accountant agrees with the Company's treatment on negative goodwill. Since negative goodwill was recognised in profit and loss at the acquisition date, no impairment consideration was needed.

6. The Enlarged Group will suffer a cash deficit upon Completion. This cash deficit will be financed by part of the net proceeds from the placing of new shares approximately HK$230,281,358 completed on 29 October 2014.

PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP

For the year ended 31 March 2014

		Pro forma adjustments			
	Group Year ended 31/3/2014 (Audited) *HK$'000* *(Note 1)*	Hualian Year ended 31/12/2013 (Audited) *HK$'000* *(Note 2)*	Completion of the Acquisition *HK$'000* *(Note 3)*	Negative goodwill on business combinations *HK$'000* *(Note 4)*	The Enlarged Group (Unaudited) *HK$'000*
Turnover	5,981	–			5,981
Other gains	38,441	21		51,911	90,373
Staff costs	(10,382)	–			(10,382)
Depreciation and amortisation	(2,423)	–			(2,423)
Other operating expenses, net	(26,711)	(16,569)	(1,898)		(45,178)
Operating profit/(loss)	4,906	(16,548)			38,371
Finance income	364	–			364
Finance costs	(44,729)	–			(44,729)
Loss before taxation	(39,459)	(16,548)			(5,994)
Taxation charge	(1,292)	–			(1,292)
Loss for the period	(40,751)	(16,548)			(7,286)
Other comprehensive income:					
Items that may reclassified to profit or loss					
Currency translation differences	(4,085)	(2,805)			(6,890)
Other comprehensive loss for the period, net of tax	(4,085)	(2,805)			(6,890)
Total comprehensive loss for the period	(44,836)	(19,353)			(14,176)
Loss for the period attributable to:					
Owner of the Company	(45,288)	(16,548)	(1,898)	51,911	(11,823)
Non-controlling interest	4,537	–			4,537
	(40,751)	(16,548)			(7,286)
Total comprehensive loss for the period attributable to:					
Owner of the Company	(48,315)	(19,353)	(1,898)	51,911	(17,655)
Non-controlling interest	3,479	–			3,479
	(44,836)	(19,353)			(14,176)

Notes to unaudited pro forma consolidated statement of comprehensive income:

1. The balances are extracted from the audited consolidated statement of comprehensive income of the Group for the year ended 31 March 2014 as set out in the annual report 2013/2014.

2. The audited statement of comprehensive income of Hualian for the year ended 31 December 2013 is extracted from the accountant's report as set out in Appendix II to this circular, and converted to the presentation currency of the Group at RMB1.00 to HK$1.2523.

3. The adjustment represents the estimated transaction cost of HK$1,898,000 incurred for the Acquisition.

4. The adjustment represents the negative goodwill recognised in the unaudited pro forma consolidated statement of comprehensive income.

5. The Notice of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises Equity Transfer Income ("Circular 698") stipulates the PRC tax treatment and reporting obligations on "indirect" equity transfers undertaken by non-resident enterprises ("offshore investors"). Circular 698 also introduces anti-abuse and anti-avoidance rules where the dominant purpose of using the offshore entities is to avoid PRC tax obligations. In such a case, the PRC tax authorities can apply a 10% withholding tax on capital gains derived by the offshore investors on the indirect transfer. However, Circular 698 does not provide for clear guidance on how the capital gains withholding tax of 10% is to be applied in practice in connection to indirect transfer.

   Under Circular 698, reporting obligations, if any, with respect to the transfer effected as a result of the Sale and Purchase Agreement will fall on the Vendor. Although it is not aware of any express requirement for the Group to report to any PRC tax authority under Circular 698 for transfer of a similar nature and in the context of the Sale and Purchase Agreement, there is still a degree of uncertainty with respect to the application and interpretation of Circular 698. In any event, the Vendor has agreed to provide indemnities to the Company in relation to, among other things, tax liabilities of Hualian under the Sale and Purchase Agreement including any liabilities arising out of Circular 698.

PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

For the year ended 31 March 2014

		Pro forma adjustments			
	Group Year ended 31/3/2014 (Audited) *HK$'000* *(Note 1)*	**Hualian Year ended 31/12/2013 (Audited)** *HK$'000* *(Note 2)*	**Completion of the Acquisition** *HK$'000* *(Note 3)*	**Business combinations** *HK$'000* *(Note 4)*	**The Enlarged Group (Unaudited)** *HK$'000*
Operating activities					
Loss before taxation	(39,459)	(16,548)	(1,898)	51,911	(5,994)
Adjustments for:					
Finance costs	44,729	–			44,729
Interest income	–	(21)			(21)
Depreciation and amortisation	2,423	–			2,423
Loss on disposal of property, plant and equipment	2,764	–			2,764
Loss on written off of property, plant and equipment	–	5			5
Negative goodwill	–	–		(51,911)	(51,911)
Provision for compensation	–	16,018			16,018
Exchange gain on disposal of subsidiaries	(6,896)	–			(6,896)
Gain on disposal of subsidiaries	(28,530)	–			(28,530)
Written back of other payables	(1,814)	–			(1,814)
Changes in working capital					
Change in receivables, prepayments and deposits	(12,642)	652			(11,990)
Change in properties under development	–	(31,507)			(31,507)
Change in payables and accruals	13,916	10,532			24,448
Net cash (used in)/generated from operations	(25,509)	(20,869)			(48,276)
Income tax paid	(1,292)	–			(1,292)
Net cash used in operating activities	(26,801)	(20,869)			(49,568)
Investing activities					
Purchases of property, plant and equipment	(1,933)	–			(1,933)
Interest received	–	21			21
Acquisition of subsidiaries	–	–	(75,600)		(75,600)
Deposits received for disposal of equity interest in subsidiaries	63,555	–			63,555

			Pro forma adjustments		
	Group Year ended 31/3/2014 (Audited) *HK$'000* *(Note 1)*	Hualian Year ended 31/12/2013 (Audited) *HK$'000* *(Note 2)*	Completion of the Acquisition *HK$'000* *(Note 3)*	Business combinations *HK$'000* *(Note 4)*	The Enlarged Group (Unaudited) *HK$'000*
Net cash generated from/ (used in) investing activities	61,622	21			(13,957)
Financing activities					
Repayment of loan	(60,849)	–			(60,849)
Proceeds from injection of capital	–	2,104			2,104
Interest paid	(24,422)	–			(24,422)
Net cash (used in)/generated from financing activities	(85,271)	2,104			(83,167)
Decrease in cash and cash equivalents	(50,450)	(18,744)			(146,692)
Cash and cash equivalents at beginning of the year	90,806	18,736			109,542
Effect of foreign exchange rate changes	921	365			1,286
Cash and cash equivalents at end of the year	41,277	357			(35,864)

Notes to unaudited pro forma consolidated statement of cash flows:

1. The balances are extracted from the audited consolidated statement of cash flows of the Group for the year ended 31 March 2014 as set out in the annual report 2013/2014.

2. The audited statement of cash flows of Hualian for the year ended 31 December 2013 is extracted from the accountant's report as set out in Appendix II to this circular, and converted to the presentation currency of the Group at RMB1.00 to HK$1.2523.

3. The adjustment represents the first payment and transaction cost in relation to the Acquisition.

4. The adjustment represents the negative goodwill recognised in the unaudited pro forma consolidated statement of comprehensive income.

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

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, Lau & Au Yeung C.P.A. Limited, Certified Public Accountants, Hong Kong.

LAU AU YEUNG 劉歐陽會計師事務所有限公司 LAU & AU YEUNG C.P.A. LIMITED

3 February 2015

The Board of Directors
Crown International Corporation Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Crown International Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 30 September 2014, the pro forma consolidated statement of comprehensive income for the year ended 31 March 2014, the pro forma consolidated statement of cash flows for the year ended 31 March 2014 and related notes as set out on pages 78 to 85 of the circular issued by the Company dated 3 February 2015 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on page 77 of the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire issued share capital of Zhongshan Hualian Industrial Development Company Limited ("Hualian") at the consideration of HK$1,008,000,000 (the "Acquisition") on the Group's financial position as at 30 September 2014 and the Group's financial performance and cash flows for the year ended 31 March 2014 as if the Acquisition had taken place at 30 September 2014 and 1 April 2013, respectively. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's condensed consolidated financial statements for the six months ended 30 September 2014, on which an interim report has been published, while information about the Group's financial performance and cash flows have been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 March 2014, on which an audit report has been published.

DIRECTORS' RESPONSIBILITIES FOR THE PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the 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 ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

REPORTING ACCOUNTANT'S RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of the pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition as at 30 September 2014 or 1 April 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion:

a. the pro forma financial information has been properly compiled on the basis stated;

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

c. the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Lau & Au Yeung C.P.A. Limited
Certified Public Accountants
Hong Kong

Au Yeung Tin Wah
Practising Certificate Number P02343

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from Peak Vision Appraisals Limited, an independent property valuer, in connection with its opinion of market value of the Property as at 31 December 2014.

Peak Vision
Appraisals Limited

12/F, Effectual Building
14-16 Hennessy Road
Wanchai, Hong Kong
www.peakval.com
Tel (852) 2187 2238
Fax (852) 2187 2239

3 February 2015

The Board of Directors
Crown International Corporation Limited
Suite 1603, 16th Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

RE: DAXING HAO YUAN (FORMERLY KNOWN AS "ZHONGSHAN PLAZA"), NO. 69 ZHONGSHAN THIRD ROAD, EAST DISTRICT, ZHONGSHAN CITY, GUANGDONG PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA

In accordance with the instructions from Crown International Corporation Limited (hereinafter referred to as the "Company", together with its subsidiaries, the "Group") for us to value the captioned property interest in the People's Republic of China (hereinafter referred to as the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of value of the property interest as at 31 December 2014 (hereinafter referred to as the "Valuation Date") for public documentation purpose.

This letter, forming part of our valuation report, identifies the property interest being valued, explains the basis and methodology of our valuation and lists out the assumptions and title investigation, which we have made in the course of our valuation, as well as the limiting conditions.

Our valuation represents our opinion of market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". We are instructed to prepare our valuation of the property interest assuming that it would have been completed as at the Valuation Date.

In valuing the property interest which is to be held for investment by the Group, we have valued the property on a completion basis as at the Valuation Date in accordance with the latest development proposals provided to us. We have adopted the Direct Comparison Approach assuming sale of the property interest as if completed, with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. The Direct Comparison Approach provides the market value of a property by comparing it to sales data obtained in the open market of similar properties. The sales evidence is adjusted for differences, such as time, location, size and quality, between the subject property and comparable properties.

Our valuation has been made on the assumption that the owner sells the property on the open market as if completed as at the Valuation Date without the benefit of deferred terms contracts, leasebacks, joint venture, management agreement or any similar arrangement which could serve to affect the value of the property. No forced sale situation in any manner is assumed in our valuation.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have been provided by the Company with extract copies of documents in relation to the title to the property interest located in the PRC. We have not examined the original documents to verify the ownership and to ascertain the existence of any amendments that may not appear on the copies handed to us. In the course of our valuation, we have relied on the advice given by the Company and the legal opinions prepared by Zhong Lun Law Firm, the Group's legal adviser on the PRC law (hereinafter referred to as the "PRC Legal Adviser"), regarding the title to the property interest.

The property was inspected by Mr. Nick C. L. Kung and Mr. Tony M. W. Cheng during August 2014. We have inspected the exterior and, where possible, the interior of the property. In the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the property is free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have not carried out on-site measurements to verify the correctness of the site and floor areas of the property but have assumed that the site and floor areas shown on the documents and plans available to us are correct. Dimensions, measurements and areas included in the attached valuation certificate are based on information contained in the documents provided to us and are, therefore, only approximations.

Moreover, we have not carried out any site investigations to determine or otherwise the suitability of the ground conditions, the presence or otherwise of contamination and the provision of or otherwise suitability for services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred in the event of any development.

We have relied to a considerable extent on the information provided by the Company and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, site and floor areas and all other relevant materials regarding the property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the property interest, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards 2012 Edition published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

We hereby confirm that we have neither present nor prospective interests in the Group, the property or the value reported herein.

Our Valuation Certificate is enclosed herewith.

Yours faithfully,
For and on behalf of
Peak Vision Appraisals Limited
Nick C. L. Kung
MRICS, MHKIS, RPS (G.P.), RICS Registered Valuer
Director
Corporate Valuations

Note: *Mr. Nick C. L. Kung is a RICS Registered Valuer and a Registered Professional Surveyor who has over 20 years of experience in the valuation of properties in Hong Kong and the PRC.*

VALUATION CERTIFICATE

<table>
<tr><th>Property</th><th>Description and tenure</th><th>Particulars of occupancy</th><th>Capital value on completion basis as at 31 December 2014</th></tr>
<tr>
<td>Daxing Hao Yuan (formerly known as "Zhongshan Plaza"), No. 69 Zhongshan Third Road, East District, Zhongshan City, Guangdong Province, the PRC</td>
<td>
The property, Daxing Hao Yuan (達興豪苑) (formerly known as "Zhongshan Plaza" (中山廣場)), comprises 2 blocks of 27-storey residential buildings built over a 4-level retail podium and a 2-level basement car park, with superstructure works completed in about 2013, erected on a parcel of land with a registered site area of approximately 10,533.00 sq.m. It is located on the northern side of Zhongshan Third Road at its junction with Xingzhong Road, in a central area near Lihe Plaza in East District, Zhongshan City. Developments in the area mainly comprise residential, office and commercial developments with some 5-star hotels.
As advised, the property has a total gross floor area of approximately 90,308.41 sq.m. (including 11,172.25 sq.m. for basement and 3,184.57 sq.m. for other facilities). Details of the gross floor area are listed as follows:
<table>
<tr><th>Use</th><th>Approximate Gross Floor Area
(sq.m.)</th></tr>
<tr><td>Residential (832 units) L5 to L31</td><td>56,292.15</td></tr>
<tr><td>Commercial (4 units) L1 to L4</td><td>19,659.44</td></tr>
<tr><td>Basement B1 to B2</td><td>11,172.25</td></tr>
<tr><td>Other Facilities</td><td>3,184.57</td></tr>
<tr><td>Total:</td><td>90,308.41</td></tr>
</table>
The land use rights of the property have been granted for a term expiring on 20 January 2062 for commercial and residential use.
</td>
<td>
As at the Valuation Date, installation of building services and escalators of the retail podium were being carried out.
As advised, completion and acceptance (竣工及驗收) procedures of the property by relevant authorities is expected to be completed by March 2015.
</td>
<td>
RMB1,245,000,000
(See Note (i) Below)
100% interest attributable to the Group: RMB1,245,000,000
</td>
</tr>
</table>

Notes:

i) As instructed, we have prepared our valuation of Daxing Hao Yuan in its entirety assuming that it would have been completed as at the Valuation Date with all building services and escalators completed, excluding interior decorations and furnishings, and that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value. As advised, the Company would receive the property in this state in its proposed acquisition of the property.

ii) As advised by the Company, the Company intends to carry out interior decoration, furnishing and fittings, and hold the property for investment by leasing out the commercial units as shops, and residential units as serviced apartments. The cost for interior decorations and furnishings of the property is estimated to be approximately HK$250 million, estimated to be completed by about June 2018.

iii) Pursuant to the State-owned Land Use Rights Certificate — Zhong Fu Guo Yong (2003) No. 211468 issued by 中山市人民政府 (the People's Government of Zhongshan City) dated 27 November 2003, the land use rights of the property with a registered site area of approximately 10,533.00 sq.m. have been granted to 中山市華聯實業開發有限公司 ("Zhongshan Hualian Industrial Development Co., Ltd.", and hereinafter "Zhongshan Hualian") for a term expiring on 20 January 2062 for commercial and residential use.

iv) Pursuant to the Construction Land Use Planning Permit — No. 280222007050040 (Bu) issued by 中山市規劃局 (Zhongshan City Planning Bureau) on 12 June 2007, approval has been granted to Zhongshan Hualian to commence the development of the property with a site area of approximately 10,533.00 sq.m.

v) Pursuant to the Construction Works Planning Permit — Jian Zi No. 281042009090027 issued by 中山市規劃局 (Zhongshan City Planning Bureau) on 21 December 2009, approval has been granted for the development of the property with a total gross floor area of approximately 90,648.20 sq.m.

vi) Pursuant to the Construction Works Commencement Permit — No. 442000201003190132ZX0879 issued by 中山市住房和城鄉建設局 (Zhongshan City Housing and Urban-Rural Construction Bureau) on 19 March 2010, construction works of the property with a total gross floor area of approximately 90,648.20 sq.m. have been permitted.

vii) Pursuant to the Commercial Housing Pre-sale Permit — Zhong Jian Fang (Yu) Zi No. 2011328 issued by 中山市住房和城鄉建設局 (Zhongshan City Housing and Urban-Rural Construction Bureau) on 14 March 2014, the pre-sale of 836 units of the property with a total gross floor area of approximately 75,395.31 sq.m. has been permitted, valid from 14 March 2014 to 14 March 2016.

viii) Pursuant to 24 Commercial Housing Sale and Purchase Contracts, entered into between Zhongshan Hualian and various parties in 2011 to 2012, Zhongshan Hualian agreed to sell and those parties agreed to purchase 63 units of the property with a total gross floor area of approximately 4,236.89 sq.m, of which the contracts for 6 units have been cancelled. As advised by the Company, Sino Oasis Oversea Limited (the "Vendor") is responsible for cancellation of the contracts and all related costs. In the course of our valuation, we have included the value of the remaining 57 units of the property.

ix) As confirmed by the PRC Legal Adviser, 139 units of the property with a total gross floor area of 9,637.83 sq.m. have been sequestrated. As advised by the Company, the Vendor is responsible for lifting of the sequestration order and all related costs. In the course of our valuation, we have included the value of the 139 units. For indication purpose, the market value for the 139 units as at the Valuation Date on completion basis was RMB99,100,000, assuming the units are free from encumbrances.

x) Pursuant to the Business Licence No. 442000400033482 dated 30 June 2014, Zhongshan Hualian has been incorporated with a registered capital of HK$50,000,000 for an operating period from 10 July 1993 to 9 July 2018. The scope of business includes the development, construction, sale, leasing of commercial and residential buildings and ancillary property management of the property with a total gross floor area approximately 90,648.20 sq.m.

xi) The market value breakdown of the residential, commercial and basement portions of the property as at the Valuation Date on completion basis were RMB570,000,000, RMB591,000,000 and RMB84,000,000 respectively.

xii) We have been provided with a legal opinion on the property prepared by the PRC Legal Adviser, which contains, inter alia, the following information:

(a) On 11 July 2013, 宏潤建設集團股份有限公司 (Hongrun Construction Group Holdings Company Limited, hereinafter, the "Contractor") filed a suit against Zhongshan Hualian to 中山市第一人民法院 (the People's First Court of Zhongshan City, hereinafter, the "Court"), claiming for payment for construction work in the amount of RMB22,134,236.50, along with a penalty interest of 0.021% per day from the date of filing the suit to the effective date of the judgment. On 12 July 2013, the Court issued two orders to sequestrate 139 units of the property with a total gross floor area of 9,637.83 sq.m.

As confirmed, the aforementioned units are currently still sequestered. No settlement has been reached between Zhongshan Hualian and the Contractor. If Zhongshan Hualian is sentenced to pay the construction costs and the sequestration order is not lifted, at the request of the Contractor, the Court could dispose of some or all of the 139 units sequestrated through public auction until the Contractor's claims against Zhongshan Hualian have been settled in full. Until Zhongshan Hualian clears its debt or settles the debt with the Contractor, any sale, mortgage, guarantee or other method of disposing the property rights to the 139 units will be restricted.

(b) The consideration for purchase of the property has been settled in full and Zhongshan Hualian legally holds the land use rights of the property, and has the right to occupy, use, transfer, lease out or mortgage the land use rights of the property in accordance with the law.

(c) Zhongshan Hualian has already obtained relevant administrative department approvals and permits for construction of the property and has obtained the Commercial Housing Pre-sale Permit for 836 units of the property. Apart from the 139 units which are sequestrated and currently cannot be pre-sold, Zhongshan Hualian may pre-sell 697 units within the validity period and pre-saleable gross floor area permitted in the pre-sale permit in accordance with the law.

xiii) In our valuation, we have adopted average unit rates of about RMB10,500 per sq.m. for residential portions, about RMB29,000 per sq.m. for commercial (L1 to L4) portions and about RMB148,000 for car parking spaces.

In the course our valuation of the property, we have made reference to sales transaction references of residential and commercial developments in the vicinity which have characteristics comparable to the property. The prices of those sales transaction references are about RMB9,600 to RMB11,000 per sq.m. for residential properties, about RMB39,500 to RMB57,100 per sq.m. for commercial (1/F) properties and about RMB135,000 to RMB250,000 for car parking spaces. The unit rates assumed by us are consistent with the said sales transaction references after due adjustment. Due adjustments to the unit rates of those sales transaction references have been made to reflect factors including but not limited to time, location, size and quality in arriving at the key assumptions.

xiv) As advised, the actual total construction cost excluding land and financing costs expended as at 31 December 2014 was approximately RMB241,748,075 and the outstanding construction cost to complete the property was approximately RMB10,200,000. In the course of our valuation on completion basis, we assumed all said construction costs, which are the responsibility of the Vendor, had already been paid.

For reference, the capital value of the property in existing state as at 31 December 2014 is approximately RMB1,218,000,000.

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 after the issue of the Consideration Shares (assuming that save for the issue of the Consideration Shares, no new Shares will be issued from the Latest Practicable Date to completion of the Acquisition) will be, as follows:

	Number of Shares	*HK$*
Authorised Shares at the Latest Practicable Date *(Note)*	N/A *(Note)*	N/A *(Note)*
Issued and fully paid Shares in issue as at the Latest Practicable Date	2,160,000,000	N/A *(Note)*
Consideration Shares to be issued at completion of the Acquisition	440,000,000	N/A *(Note)*
Total	2,600,000,000	N/A *(Note)*

Note: The Company was incorporated in Hong Kong and pursuant to Companies Ordinance (Cap 622) effective on 3 March 2014, companies incorporated in Hong Kong no longer have the authorised share capital and there is no concept of par value in respect of share.

All the existing Shares in issue are fully paid and rank pari passu in all respects including all rights as to voting, dividends and interests in capital. The Consideration Shares to be issued pursuant to the Sale and Purchase Agreement will rank pari passu in all respects with all other Shares in issue as at the date of Completion and be entitled to all dividends and other distributions the record date for which falls on or after the date of Completion.

As at the Latest Practicable Date, the Company did not have any outstanding convertible debt securities.

3. DISCLOSURE OF INTERESTS

Interests of Directors and the Chief Executive

As at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which 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 he was taken or deemed to have under such provisions of the SFO) or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors was a director or an employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Substantial Shareholders

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by any Directors or the chief executive of the Company, the following persons had an interests or short positions in the Shares and underlying Shares of the Company 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, who were, directly or indirectly, deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such persons' interests in such securities, together with particulars of any options in respect of such capital were as follows:

Name of Shareholders	Number of Shares and underlying Shares held (Long Position)	Approximate percentage of issued Share capital of the Company
Crown Landmark Corporation	1,329,318,000	51.13%

Save as disclosed above, as at the Latest Practicable Date, the Directors or chief executive were not aware of any other person (other than the Directors and the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with any member of the Group which was not expiring or determinable by the Group within 1 year without payment of compensation, other than statutory compensation.

5. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2014, the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

6. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Enlarged Group.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, so far as is known to the Directors, none of the Directors or their respective associates had any business or interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into the ordinary course of business) were entered into by member(s) of the Enlarged Group within two years immediately preceding the date of this circular which are or may be material:

(i) an equity transfer agreement dated 8 February 2013 and entered into between UIHIL as vendor and 施立軍 (Mr. Shi Lijun*) as purchaser in respect of the sale of 100% equity interest in 你的客棧酒店管理(吐魯番地區)有限公司 ("U" Inns & Hotels (Tulufan) Management Co., Limited*) for approximately RMB15.14 million;

(ii) an equity transfer agreement dated 31 May 2013 and entered into between UIHIL as vendor and 江偉 (Mr. Jiang Wei*) as purchaser in respect of the sale of 100% equity interest in 你的客棧酒店管理(布爾津縣)有限公司 ("U" Inns & Hotels (Buerjin) Management Co., Limited*) for approximately RMB9.30 million;

(iii) an equity transfer agreement dated 31 May 2013 and entered into between UIHIL as vendor and 廖建勇 (Mr. Liao Jianyong*) as purchaser in respect of the sale of 100% equity interest in 你的客棧(襄樊)酒店管理有限公司 ("U" Inns & Hotels (Xiangfan) Hotel Management Co., Limited*) for approximately RMB24.95 million;

(iv) a termination agreement dated 26 June 2013 and entered into between 重慶你的客棧酒店管理有限公司 (Chongqing "U" Inns & Hotels Management Co., Limited*) ("U Inns Chongqing") (a wholly-owned subsidiary of the Company) and 重慶市郵政公司 (Chongqing City Post Company*) ("Chongqing City Post") in respect of (i) the termination of an acquisition agreement dated 4 November 2008 and entered into between U Inns Chongqing as purchaser and Chongqing City Post as vendor in relation to the acquisition of 秀山縣郵政賓館 (Xiushan Prefecture Post Hotel*) located in Chongqing City, the PRC for approximately RMB6.5 million; (ii) the return by Chongqing City Post to U Inns Chongqing of the partial consideration of approximately RMB5.85 million already paid by U Inns Chongqing with compensation of approximately RMB0.9 million; and (iii) the return of documents relating to the hotel property by U Inns Chongqing to Chongqing City Post;

(v) a master agreement for share transfer dated 4 July 2013 and entered into among the Company, UIHIL and FSG pursuant to which (a) FSG conditionally agreed to sell, and the Company conditionally agreed to purchase, 25.9% of the issued share capital in UIHHL; (b) UIHIL conditionally agreed to sell, and FSG conditionally agreed to purchase, 100% equity interest in 你的客棧(西安)酒店管理有限公司 ("U" Inns & Hotels (Xi'an) Management Co., Limited*); and (c) the consideration for the transaction in (a) above shall be offset against the consideration for the transaction in (b) above;

(vi) a share purchase agreement (in both English and Chinese) dated 4 July 2013 and entered into between UIHIL as vendor and FSG as purchaser in respect of the sale of 100% equity interest in 你的客棧(西安)酒店管理有限公司 ("U" Inns & Hotels (Xi'an) Management Co., Limited*) for approximately HK$84.37 million to be paid in such manner as agreed by the parties;

(vii) a share purchase agreement dated 4 July 2013 and entered into between the Company as purchaser and FSG as vendor in respect of 2,590 shares in the issued share capital of UIHHL for approximately HK$88.37 million to be paid in such manner as agreed by the parties;

(viii) an equity transfer agreement dated 17 October 2013 and entered into between UIHIL and 牟小剛 (Mr. Mou Xiaogang*) in respect of the sale of 100% equity interest in 你的客棧(通化)酒店管理有限公司 ("U" Inns & Hotels (Tonghua) Management Co., Limited*) for approximately RMB19.01 million;

(ix) an equity transfer agreement dated 19 December 2013 and entered into between UIHIL and 牛嶺峰 (Mr. Niu Lingfeng*) in respect of the sale of 100% equity interest in 你的客棧(武漢)酒店管理有限公司 ("U" Inns & Hotels (Wuhan) Management Co., Limited*) for approximately RMB14.11 million; and

(x) an equity transfer agreement dated 22 January 2014 and entered into between UIHIL and 劉雄 (Mr. Liu Xiong*) in respect of the sale of 100% equity interest in 你的客棧酒店(井崗山市)有限公司 ("U" Inns & Hotels (Jinggangshan City) Co., Limited*) for RMB50.00 million.

* *For identification purpose only*

9. MATERIAL LITIGATION

你的客棧(營口)酒店管理有限公司 ("U" Inns & Hotels (Yingkou) Co., Limited*) ("U Inns Yingkou"), a wholly-owned subsidiary of the Company, is engaged in a contractual dispute in Liaoning, the PRC. In March 2012, U Inns Yingkou entered into a lease agreement and property management agreement with a third party (the "Plaintiff") to lease a certain building to the Plaintiff and engage the Plaintiff to provide property management services regarding the building. The Plaintiff alleged that the leased building could not be used for the agreed purpose and the lease was subsequently terminated. The Plaintiff then sued U Inns Yingkou for damages of approximately RMB750,000 and costs. U Inns Yingkou filed its defence in November 2013. As at the Latest Practicable Date, no judgment has been given by the court.

On 11 July 2013, Hongrun Construction filed a suit against the Target Company to the People's First Court of Zhongshan City (the "Court"), claiming for payment for construction work in the amount of RMB22,134,236.50, along with a penalty interest of 0.021% per day from the date of filing the suit to the effective date of the judgment. On 12 July 2013, the Court issued two orders to sequestrate the Target Company's 139 units of in the properties under development for 2 years until 12 July 2015 as a procedural protection for the plaintiff's claims. The total gross floor area of the 139 units is 9,637.83 square meters with an estimated relevant book value of approximately RMB25,416,000.

According to the Target Company, the Court has not ruled on the case so far. The Target Company wishes to settle the case with the plaintiff, but no settlement has been reached because of failure to agree on the settlement amount. If the Court rules in favour of the plaintiff and the Target Company fails to pay the claimed amount within the court-prescribed time, at the request of the plaintiff, the Court would dispose of some or all of the 139 units sequestrated through public auction until the plaintiff's claims have been settled in full.

Save as disclosed above, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

10. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given their opinion or advice which is contained in this circular:

Name	**Qualification**
Peak Vision Appraisals Limited	Independent property valuer
Lau & Au Yeung C.P.A. Limited	Certified Public Accountants
(collectively the ''Experts'')	

As at the Latest Practicable Date, each of the Experts has confirmed that it did not have any shareholding, directly or indirectly, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of their letters and the references to their name in the form and context in which they respectively appear in this circular.

As at the Latest Practicable Date, each of the Experts did not have any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 March 2014, being the date to which the latest published audited accounts of the Group were made up.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Suite 1603, 16th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays and public holidays) from the date of this circular up to and including the date of the SGM:

(a) the memorandum and articles of association of the Company;

(b) the interim report of the Company for the six months ended 30 September 2014 and the annual reports of the Company for the three years ended 31 March 2012, 2013 and 2014;

(c) the letter from the Board, the text of which is set out on pages 4 to 35 of this circular;

(d) the accountants' reports on the Target Company, the text of which are set out in Appendix II to this circular;

(e) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(f) the property valuation report of the property interest of the Target Company, the text of which are set out in Appendix IV to this circular;

(g) the consent letters from the Experts; and

(h) the material contracts as referred to in the section headed ''Material Contracts'' in this appendix.

12. GENERAL

(a) The registered office of the Company is at Suite 1603, 16th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(b) The share registrar and transfer office of the Company is Boardroom Share Registrars (HK) Limited at 31/F., 148 Electric Road, North Point, Hong Kong.

(c) The company secretary of the Company is Mr. Kwok Siu Man. He is the Head of Corporate Secretarial in Boardroom Corporate Services (HK) Limited. He is also a fellow member of The Institute of Chartered Secretaries and Administrators and The Institute of Financial Accountants in England and The Hong Kong Institute of Chartered Secretaries.

(d) The English text of this circular shall prevail over the Chinese text in case of inconsistency except where English translations of Chinese terms are stated to be provided for identification purposes only, in which case the Chinese terms shall prevail.

Crown International Corporation Limited
皇冠環球集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 727)

NOTICE IS HEREBY GIVEN that a special general meeting (the "Meeting") of Crown International Corporation Limited (the "Company") will be held at Executive Boardroom, Business Centre, Level 7, Island Shangri-La, Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Monday, 23 February 2015 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the Sale and Purchase Agreement dated 31 October 2014, as amended and supplemented by the Supplemental Sale and Purchase Agreement dated 22 January 2015 together, (the "Acquisition Agreement") (a copy of which marked "A" has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) entered into among Crown International Resort Limited, an indirect wholly-owned subsidiary of the Company, and Sino Oasis Oversea Limited in relation to the acquisition of the entire issued share capital of the Target Company, pursuant to the terms and conditions of the Acquisition Agreement for a consideration of HK$1,008,000,000, in which HK$700,000,000 will be satisfied by cash payment and the remaining HK$308,000,000 will be satisfied by the allotment and issue of the Consideration Shares, and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) subject to the completion of the Acquisition Agreement and subject to the terms of the Acquisition Agreement, the allotment and issue of the Consideration Shares (as defined in the Circular) be and is hereby approved; and

(c) the directors of the Company be and are hereby authorised to do all such acts and things and execute such further documents and take all steps which, in their opinion may be necessary, desirable or expedient to implement and give effect to the terms of, and all transactions contemplated under, the Acquisition Agreement for and on behalf of the Company and to approve any change and amendment thereto as they may consider necessary, desirable or expedient, provided that any actions or steps authorised by this resolution are limited to administrative matters ancillary to the implementation of the Acquisition Agreement."

By order of the Board
Crown International Corporation Limited
Liao Pin Tsung
Chairman

Hong Kong, 3 February 2015

Notes:

1. The resolution will be put to vote at the Meeting by way of poll.

2. A proxy form for use at the Meeting is enclosed.

3. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares of the Company (the "Shares") may appoint more than one proxy. A proxy need not be a member of the Company.

4. To be valid, the instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

5. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority, shall be deposited at the **share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited, at 31/F., 148 Electric Road, North Point, Hong Kong,** not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof, and in default the instrument of proxy shall not be treated as valid.

6. Where there are joint registered holders of any Share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such Share shall alone be entitled to vote in respect thereof.