THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other professional adviser.

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

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of Fulbond Holdings Limited.

fulbond
福邦控股

Fulbond Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1041)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND THE ASSIGNMENT OF THE SHAREHOLDER'S LOAN OF ALLYWING INVESTMENTS LIMITED,

(2) PLACING OF THE SECOND TRANCHE CONVERTIBLE NOTES UNDER SPECIFIC MANDATE

AND

(3) NOTICE OF SPECIAL GENERAL MEETING

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

粵海證券有限公司
GUANGDONG SECURITIES LIMITED

A letter from the Board is set out on pages 8 to 39 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Acquisition and the placing of the Second Tranche Convertible Notes is set out on page 40 of this circular. A letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the placing of the Second Tranche Convertible Notes is set out on pages 41 to 61 of this circular.

A notice convening a special general meeting of Fulbond Holdings Limited (the "Company") to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 20 July 2010 at 11:00 a.m. or any adjournment thereof is set out on pages SGM-1 to SGM-4 of this circular. A proxy form for use in the special general meeting is enclosed. Whether or not you propose to attend the special general meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the special general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

Hong Kong, 28 June 2010

CONTENTS

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

"Acquisition"	the acquisition of the Sale Share and the Shareholder's Loan by the Purchaser in accordance with the Acquisition Agreement
"Acquisition Agreement"	the conditional agreement dated 1 June 2010 entered into between the Purchaser and the Vendor in respect of the Acquisition
"Acquisition Completion"	completion of the Acquisition in accordance with the Acquisition Agreement
"Ancillary Agreement"	the agreement dated 28 May 2010 entered into between the shareholders of Chengdu Hongbang and the Vendor in relation to the payment of the Land Purchase Price
"Announcement"	the announcement of the Company dated 9 June 2010 in respect of the Acquisition and placing of the Second Tranche Convertible Notes
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day (not being a Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are generally open for business
"Capital Increase Agreement"	an agreement dated 28 May 2010 entered into between the Target Company and Chengdu Hongbang in relation to the Second Stage Capital Increase
"Capital Injection"	the capital injection of RMB30 million into Xi'an Yuansheng to be made by the Target Company for the Second Stage Capital Increase pursuant to the Capital Increase Agreement
"Chengdu Hongbang"	成都宏邦投資有限公司 (Chengdu Hongbang Investments Limited), a company incorporated in the PRC with limited liability

"Company"	Fulbond Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange
"Completion Date"	a date falling within five Business Days after the fulfillment of the Conditions Precedent (or such other date as the Purchaser and the Vendor may agree before Acquisition Completion)
"Conditions Precedent"	the conditions precedent of the Acquisition Agreement, details of which are set out in the section headed "Conditions Precedent" of this circular
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration for the Acquisition
"Conversion Shares"	those shares of the Company to be issued upon the exercise of the conversion rights under the Fulbond Convertible Notes
"Directors"	the directors of the Company
"Enlarged Group"	the Group immediately after completion of the Acquisition Completion
"Existing Convertible Notes"	the First Tranche Convertible Notes in an outstanding aggregate principal amount of HK$250,000,000
"Existing Third Parties Loans"	loans in the principal amounts of RMB51 million and RMB23.5 million owing by 西安欣融科技實業(集團)有限公司 (Xi'an Xinrong Technology Industry (Group) Co., Ltd.) and 西安聯合信息技術股份有限公司 (Xi'an Kingtone Information Technology Co., Ltd.) respectively to a financial institution in the PRC
"First Stage Capital Increase"	the increase of the registered capital of Xi'an Yuansheng from RMB5 million to RMB20 million by the capital contribution made solely by Chengdu Hongbang

"First Tranche Convertible Notes"	the convertible redeemable notes in an aggregate principal amount of HK$450,000,000 due on Maturity Date issued by the Company to the Noteholders in two tranches on 29 December 2009 and 14 January 2010 respectively
"Fulbond Convertible Notes"	the convertible redeemable notes of the Company in the maximum aggregate principal amount of HK$800,000,000 due on Maturity Date comprising the First Tranche Convertible Notes and the Second Tranche Convertible Notes
"Group"	the Company and its subsidiaries
"Guangdong Securities" or "Independent Financial Adviser"	Guangdong Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and placing of the Second Tranche Convertible Notes
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising all the independent non-executive Directors established to advise the Independent Shareholders in relation to the Acquisition and placing of the Second Tranche Convertible Notes
"Independent Shareholders"	Shareholders other than the Vendor and his associates
"Land"	Land A and Land B
"Land A"	a parcel of land in Weiyang District, Xi'an City, the PRC with a site area of approximately 134,357 square meters for residential use
"Land B"	a parcel of land in Weiyang District, Xi'an City, the PRC with a site area of approximately 19,739 square meters for commercial use

"Land Charge"	the charge created over the Land in favour of a financial institution to secure the Existing Third Parties Loans
"Land Contracts"	the Land Use Right Granting Modification Agreements (國有土地使用權出讓變更協議) (Ref. Nos. 18233-1 and 18233-3) (as amended and supplemented by their respective supplemental agreements (Ref. Nos. 18233-2 and 18233-4)) both dated 1 February 2008 and entered into by Xi'an Yuansheng and Xi'an Land Resources Administration Bureau in relation to Land A and Land B, respectively
"Latest Practicable Date"	25 June 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	a date falling on the expiry of 3 calendar months after the date fixed for convening the special general meeting of the Company to consider and approve, inter alia, the specific mandate(s) for the allotment and issue of the Conversion Shares under the Second Tranche Convertible Notes or if such date is not a Business Day, the immediate preceding Business Day
"Maturity Date"	28 December 2012, being the date falling upon the expiry of three years from the date on which the Fulbond Convertible Notes was first issued
"New JV Agreement"	the new joint venture agreement to be entered into between the Target Company and Chengdu Hongbang prior to Acquisition Completion in relation to Xi'an Yuansheng
"New JV Articles"	the new articles of association of Xi'an Yuansheng to be entered into between the Target Company and Chengdu Hongbang prior to Acquisition Completion in relation to Xi'an Yuansheng
"Noteholder(s)"	the holder(s) of the Fulbond Convertible Notes

"Option Price"	the Consideration and the principal amount of the Additional Shareholder's Loan together with interest accrued thereon calculated at the rate equal to the lending rate quoted by the People's Bank of China from time to time for the period from the Completion Date up to the date of completion of the sale and purchase of the Sale Share and the New Shareholder's Loan upon exercise of the Put Option
"Placee(s)"	placee(s) under the Placing
"Placing"	the placing of the Fulbond Convertible Notes by the Placing Agent on a best effort basis pursuant to the Placing Agreement
"Placing Agent"	Kingston Securities Limited, a licensed corporation to carry on type 1 regulated activity (dealing in securities) under the SFO
"Placing Agreement"	a conditional placing agreement dated 6 August 2009 entered into between the Company and the Placing Agent in relation to the Placing (as supplemented and amended by side letters made between the same parties on 24 September 2009 and 2 June 2010 respectively)
"Placing Circular"	the circular of the Company in respect of the Placing issued to the Shareholders on 28 September 2009
"PRC"	the People's Republic of China excluding Hong Kong, Macau Special Administrative Region and Taiwan Region
"Purchaser"	Good Base Investments Limited, a wholly-owned subsidiary of the Company
"Put Option"	an option granted by the Vendor to the Purchaser pursuant to the Acquisition Agreement to require the Vendor to purchase back from the Purchaser the Sale Share and the New Shareholder's Loan at the Option Price
"Sale Share"	1 share of US$1.00 each in the share capital of the Target Company, representing the entire issued share capital of the Target Company

"Second Stage Capital Increase"	the increase of the registered capital of Xi'an Yuansheng from RMB20 million to RMB50 million by the Capital Injection to be made by the Target Company pursuant to the Capital Increase Agreement
"Second Tranche Convertible Notes"	the convertible redeemable notes in the maximum aggregate principal amount of HK$350,000,000 due on Maturity Date to be issued by the Company pursuant to the Placing Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting to be held by the Company to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder, the issue of the Second Tranche Convertible Notes and the Specific Mandate
"Share(s)"	ordinary share(s) of US$0.001 each in the share capital of the Company
"Share Option(s)"	the option(s) to subscribe for Shares granted under the Share Option Scheme
"Share Option Scheme"	the share option scheme adopted by the Company on 19 November 2001
"Shareholder(s)"	holder(s) of the Shares
"Shareholder's Loan"	the shareholder's loan due and owing to the Vendor by the Target Company as at the Completion Date which is interest-free and repayable on demand
"Specific Mandate"	the authority to issue and allot such number of Conversion Shares deliverable upon conversion of the Second Tranche Convertible Notes to satisfy all the conversion rights of holders of the Second Tranche Convertible Notes pursuant to a Shareholders' resolution to be proposed at the SGM
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Target Company"	Allywing Investments Limited, a company incorporated in the British Virgin Islands with limited liability
"Target Group"	the Target Company and its subsidiary, namely Xi'an Yuansheng, equity interest in which will be subscribed by the Target Company under the Capital Increase Agreement
"Vendor"	Zhang Xi, an executive Director and the Chairman of the Company
"Warrants"	up to 1,500,000,000 unlisted warrants issued by the Company at the price of HK$0.001 per unit, each entitles the holder thereof to subscribe for one Share at the subscription price of HK$0.026 per Share (subject to adjustment) at any time during a period of 30 months commencing from 21 January 2008, the date of issue of the Warrants
"Xi'an Yuansheng"	西安遠聲實業有限公司 (Xi'an Yuansheng Enterprises Limited), a company incorporated in the PRC with limited liability
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

In this circular, for reference only, the translation of Renminbi into Hong Kong dollars is based on the exchange rate of RMB1.00 = HK$1.14; and the translation of United States dollars into Hong Kong dollars is based on the exchange rate of US$1.00 = HK$7.75.

If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese version shall prevail.

福 邦 控 股

Fulbond Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1041)

Executive Directors:
Mr. Zhang Xi *(Chairman)*
Ms. Catherine Chen *(Managing Director)*
Mr. Yeung Kwok Yu
Mr. Lee Sun Man
Mr. Kwan Kam Hung, Jimmy
Mr. Wah Wang Kei, Jackie

Independent Non-Executive Directors:
Mr. Hong Po Kui, Martin
Mr. Yu Pan
Ms. Ma Yin Fan
Mr. Leung Hoi Ying

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

Head office and principal place of business in Hong Kong:
Unit 2807, 28/F
The Center
99 Queen's Road Central
Central
Hong Kong

28 June 2010

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND THE ASSIGNMENT OF THE SHAREHOLDER'S LOAN OF ALLYWING INVESTMENTS LIMITED,

(2) PLACING OF THE SECOND TRANCHE CONVERTIBLE NOTES UNDER SPECIFIC MANDATE

AND

(3) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 9 June 2010, the Company announced that (a) the Purchaser (a wholly-owned subsidiary of the Company) and the Vendor entered into the Acquisition Agreement, pursuant to which the Purchaser conditionally agreed to acquire the Sale Share and the Shareholder's Loan at the Consideration; and (b) the Company proposed to proceed with the placing of the Second Tranche Convertible Notes.

The purpose of this circular is to provide you with, among other things, (i) further information on the Acquisition and the placing of the Second Tranche Convertible Notes, (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Acquisition and placing of the Second Tranche Convertible Notes , (iii) the letter of advice from Guangdong Securities to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and placing of the Second Tranche Convertible Notes, (iv) the financial information of the Target Company and Xi'an Yuansheng and the pro forma financial information on the Enlarged Group, (v) the valuation report on the property interests of the Enlarged Group, and (vi) the notice of the SGM.

THE ACQUISITION AGREEMENT

Date

1 June 2010

Parties

Purchaser: Good Base Investments Limited, a wholly-owned subsidiary of the Company

Vendor: Mr. Zhang Xi, an executive Director and the Chairman of the Company

Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser conditionally agreed to purchase the Sale Share, representing the entire issued share capital of the Target Company, and the Shareholder's Loan from the Vendor.

In preparation of the Acquisition, the Target Company entered into the Capital Increase Agreement with Chengdu Hongbang on 28 May 2010, pursuant to which the Target Company agreed to make the Capital Injection to Xi'an Yuansheng; and completion of the Second Stage Capital Increase under the Capital Increase Agreement is one of the Conditions Precedent to the Acquisition Completion. As at the Latest Practicable Date, approval from the National Development and Reform Commission of Xi'an for the Second Stage Capital Increase has been obtained and Xi'an Yuansheng is in the process of obtaining all other necessary approvals for the Second Stage Capital Increase from the relevant PRC governmental authorities. Upon completion of the Second Stage Capital Increase, the Target Company and Chengdu Hongbang will respectively own 60% and 40% equity interest in Xi'an Yuansheng, which in turn holds the land use and development rights of the Land.

Consideration

The total Consideration payable for the Sale Share and the Shareholder's Loan is RMB284,848,920 (equivalent to approximately HK$324,727,769) and shall be paid in cash by the Purchaser to the Vendor on the Completion Date in HK$ at the exchange rate between HK$ and RMB being the average of the ask and bid exchange rate as quoted by the Bank of China (Hong Kong) at the close of business on the Business Day immediately preceding the Completion Date, provided that in any event the total Consideration payable by the Purchaser shall not exceed HK$330,000,000.

The Consideration was determined after arm's length negotiations between the parties having taken into account (i) the appraised value of the Land determined by Asset Appraisal Limited, an independent valuer; and (ii) the total consideration payable by the Vendor for the purpose of acquiring the ownership of 60% equity interest in Xi'an Yuansheng, comprising the Capital Injection in the sum of RMB30 million (equivalent to approximately HK$34.2 million) under the Capital Increase Agreement and the Land Purchase Price in the sum of RMB254,848,920 (equivalent to approximately HK$290,527,769) under the Ancillary Agreement.

The appraised value of the Land as shown in the valuation report prepared by the independent valuer as set out in Appendix V to this circular based on comparison method was approximately RMB470,000,000 (equivalent to approximately HK$535.8 million) as at 30 April 2010. At present, the books of Xi'an Yuansheng only reflect the original cost of the Land but not the value of the Land under revaluation.

The Group intends to finance the Consideration by internal resources and/or the proceeds from the issue of the Second Tranche Convertible Notes, details of which are set out under the section headed "Placing of the Second Tranche Convertible Notes" in this circular.

Conditions Precedent

Acquisition Completion is subject to and conditional upon the satisfaction in full or the waiver of the following Conditions Precedent (save for condition (i) below which cannot be waived):

(i) the Independent Shareholders should have approved the Acquisition Agreement and all the transactions contemplated thereunder at the SGM in accordance with the Listing Rules;

(ii) to the extent as the Purchaser may, in its absolute discretion, think necessary for the purpose of financing the sale and purchase of the Sale Share and the Shareholder's Loan, the due and proper completion of the placing of the Second Tranche Convertible Notes in an aggregate principal amount of HK$350 million or any part thereof;

(iii) the First Stage Capital Increase shall have been duly and properly completed and shall have been fully paid and approval of the First Stage Capital Increase by the relevant governmental authority in the PRC shall have been obtained;

(iv) (a) the Capital Increase Agreement shall remain valid and binding and not being revoked and not being varied, amended or modified without the prior written consent of the Purchaser; and

(b) the Second Stage Capital Increase under the Capital Increase Agreement shall have been duly and properly completed and shall have been fully paid to result in the final structure of the Target Group and approval of the Second Stage Capital Increase by the relevant governmental authority in the PRC shall have been obtained;

(v) the New JV Agreement and the New JV Articles, each in such forms and contents and upon such terms and conditions as may be satisfactory to the Purchaser in its absolute discretion, shall have been duly executed by the Target Company and Chengdu Hongbang and approval of the New JV Agreement and the New JV Articles by the relevant governmental authority in the PRC shall have been obtained;

(vi) the land use and development rights of the Land shall remain valid and binding and not being revoked and not being varied, amended or modified unless with the prior written consent of the Purchaser;

(vii) the qualification certificate for real estate development enterprise (房地產開發企業資質證書) held by Xi'an Yuansheng shall remain valid and binding and not being revoked and not being varied, amended or modified unless with the prior written consent of the Purchaser;

(viii) the provision of evidence by the Vendor to the Purchaser to the absolute satisfaction of the Purchaser that (i) the Land Charge and the relevant guarantees given by Xi'an Yuansheng in relation to the Existing Third Parties Loans have been fully and completely discharged and released; and (ii) save and except for the Shareholder's Loan, all loans, debts, liabilities or other financial facilities outstanding or available to the Target Group (including the Target Company and Xi'an Yuansheng) shall have been fully settled and the Target Group shall have no liabilities on Acquisition Completion;

(ix) PRC legal opinions from the PRC legal advisers acceptable to the Purchaser (in forms and contents satisfactory to the Purchaser in its absolute discretion) on, inter alia: (i) the due incorporation, shareholders and scope of business activities of the relevant member of the Target Group in the PRC; (ii) that the Target Company has become the legal and beneficial owner of the 60% of the equity interest in Xi'an Yuansheng free from any encumbrance; (iii) the relevant licences and consent (or renewal thereof, as the case may be) in relation to the Land and/or the development of the Land, including but not limited to the land use right certificates of the Land and the qualification certificate for real estate development enterprise, having been validly issued by the proper PRC government authorities; (iv) the renewal of the deadlines for (a) commencement of construction work on the Land before the prescribed commencement date (i.e. 30 December 2008) and (b) completion of the construction work on the Land before the prescribed completion date (i.e. 31 December 2010) pursuant to the Land Contracts; (v) the Land not being treated as idle land and (vi) such other matters as may be required by the Purchaser, shall have been delivered to the Purchaser to its absolute satisfaction;

(x) the Purchaser being satisfied with the results of the due diligence review, including but not limited to the satisfaction of the affairs, business, assets, liabilities, operations, records, financial position, value of assets, accounts, results, legal and financial structure of the Target Group and there is no matter appearing to the Purchaser from the due diligence review which in the opinion of the Purchaser may adversely affect the value of the Sale Share; and

(xi) it has not come to the attention of the Purchaser that any material adverse changes or effect on the Target Group has occurred prior to the Completion Date or are likely to occur before the Completion Date.

If the Conditions Precedent are not fulfilled (or waived by the Purchaser) on or before 31 October 2010 or such other later date as the parties to the Acquisition Agreement may agree in writing, the Acquisition Agreement and the transactions contemplated thereunder shall terminate and be null and void and of no further effect and no parties thereto shall have any liability to any other party, save in respect of any prior breaches.

The Company currently does not intend to waive any of the Conditions Precedent prior to Acquisition Completion. However, should the Company consider it to be necessary to waive any of the Conditions Precedent, the Company will review the overall terms and conditions of the Acquisition after such waiver and may impose further terms and conditions to the waiver, which may include an adjustment to the Consideration, as the Board considers necessary to safeguard the interest of the Company and its Shareholders. In the event that there is any material variation of the terms of the Acquisition as previously announced, the Company will comply with the relevant provisions of the Listing Rules.

As at the Latest Practicable Date, the condition (iii) as set out above has been fulfilled.

According to the financial information of Xi'an Yuansheng for the year ended 31 December 2009 as set out in Appendix IIB of this circular, Xi'an Yuansheng had audited net liabilities of US$1,922,217 and financial guarantees in respect of loans in the aggregate principal amount of approximately US$11.3 million (equivalent to approximately RMB77.3 million), which comprise (i) a loan granted to the then related company of Xi'an Yuansheng in the principal amount of RMB2.8 million; and (ii) the Existing Third Parties Loans in the aggregate principal amount of RMB74.5 million which are also secured by the Land. As at the Latest Practicable Date, part of the Existing Third Parties Loans in the principal amount of RMB51 million and the loan in the principal amount of RMB2.8 million as mentioned above have already been fully settled.

Pursuant to condition (viii) as set out above, all the liabilities of Xi'an Yuansheng including the abovementioned net liabilities, all financial guarantees and the Land Charge have to be released and discharged prior to Acquisition Completion. In order to discharge the liabilities, it is proposed that part of the net liabilities of Xi'an Yuansheng will be settled by the proceeds from the First Stage Capital Increase and the Second Stage Capital Increase and the remaining liabilities will be settled by Chengdu Hongbang in the form of a shareholder's loan which will subsequently be capitalized to capital reserve of Xi'an Yuansheng.

Acquisition Completion

Acquisition Completion shall take place on the Completion Date, which is a date falling within five Business Days after the fulfillment of the Conditions Precedent or such other date as the Purchaser and the Vendor may agree before Acquisition Completion.

Put Option

Pursuant to the Acquisition Agreement, the Purchaser has a right to exercise the Put Option to require the Vendor to purchase back from the Purchaser the Sale Share (together with any outstanding shareholder's loan due and owing by the Target Company to the Purchaser at the time when the Put Option is completed (the "**New Shareholder's Loan**"), being the Shareholder's Loan and any shareholder's loan granted by the Purchaser to the Target Company after Acquisition Completion (the "**Additional Shareholder's Loan**")) at the Option Price in the event that a new construction land planning permit (建設用地規劃許可證) or the renewal of the existing construction land planning permit for the Land upon such terms and conditions as may be acceptable to the Purchaser cannot be obtained on or before 31 December 2010 (or such later date as may be agreed by the Purchaser) (the "**Latest Issue Date**"). The Put Option is exercisable up to the expiry of 12 months from the Latest Issue Date.

The exercise of the Put Option is at the discretion of the Purchaser. The Put Option is granted in consideration of the Purchaser agreeing to purchase the Sale Share and the Shareholder's Loan and thus no premium is required to be paid by the Purchaser for the grant of the Put Option. Therefore, the grant of the Put Option is exempt from the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. The exercise of the Put Option is expected to constitute a notifiable and connected transaction for the Company and the Company will comply with the applicable reporting, announcement and independent shareholders' approval requirements pursuant to the Listing Rules on the exercise of the Put Option.

Chengdu Hongbang and its shareholders have undertaken to obtain the above construction land planning permit pursuant to the Capital Increase Agreement and the Ancillary Agreement, failing which the Target Company may exercise an option to request Chengdu Hongbang to purchase back the 60% equity interest in Xi'an Yuansheng at the Capital Injection cost; and the Vendor may demand the refund of the Land Purchase Price from the shareholders of Chengdu Hongbang in accordance with the terms thereunder. The exercise of the above option by the Target Company after it has become a wholly-owned subsidiary of the Company is expected to constitute a notifiable and connected transaction for the Company and will be subject to the applicable reporting, announcement and independent shareholders' approval requirements pursuant to the Listing Rules. The above option is an alternative to the Company's Put Option. Considering that the return under the exercise of the Put Option is more favourable and beneficial to the Company and its Shareholders as a whole, the exercise of the Put Option will be a priority to the exercise of the above option granted to the Target Company.

The New JV Agreement

It is the current intention that the Company, through its indirect interest in the Target Company upon Acquisition Completion, will jointly develop the Land with Chengdu Hongbang through their respective equity interests in Xi'an Yuansheng. Therefore, as contemplated under the Acquisition Agreement, the Target Company and Chengdu Hongbang will enter into the New JV Agreement prior to Acquisition Completion in respect of Xi'an Yuansheng. The principal terms of the New JV Agreement are set out below.

Effective Date

The New JV Agreement will become effective on the date on which the New JV Agreement and the New JV Articles are approved by the relevant authorities in the PRC.

Business

Pursuant to the New JV Agreement, the scope of business of Xi'an Yuansheng shall be development and sale of real estate and real estate management.

Term

20 years from the date of issue of the new business licence of Xi'an Yuansheng as a sino-foreign equity joint venture enterprise.

Registered Capital

Pursuant to the New JV Agreement, the registered capital and the total investment amount of Xi'an Yuansheng will be RMB50 million and RMB100 million, respectively.

The difference between the registered capital and the total investment amount of Xi'an Yuansheng is expected to be funded by third party financing or by the Target Company and Chengdu Hongbang pro rata to their equity interests in Xi'an Yuansheng. However, neither the Target Company nor Chengdu Hongbang has or will, under the New JV Agreement, have any existing financial commitment or obligation in the contribution of additional funding to Xi'an Yuansheng.

Board of Directors

The board of directors of Xi'an Yuansheng will consist of 7 directors. Each of the Target Company and Chengdu Hongbang is entitled to appoint 5 and 2 directors to the board of directors. The term of such directors shall be 3 years from the date of their appointment and is subject to re-election. The chairman shall be appointed by the board of directors of Xi'an Yuansheng.

Profit Distributions

The profits of Xi'an Yuansheng will be shared between the Target Company and Chengdu Hongbang in proportion to their respective equity interests in Xi'an Yuansheng.

Matters to be passed by unanimous approval of all the directors of Xi'an Yuansheng

The following matters shall be subject to unanimous approval by all the directors of Xi'an Yuansheng:

(a) any merger and acquisition, liquidation and disposal of assets carried out by Xi'an Yuansheng;

(b) any issuance, sale, re-purchase and/or redemption of any class of its shares, debentures or similar securities of Xi'an Yuansheng;

(c) any amendment to the joint venture agreement and joint venture articles of Xi'an Yuansheng;

(d) conversion of Xi'an Yuansheng into a foreign-funded joint stock limited company or overseas entity or an associated institution of any of those entities, or any other change in the legal status or structure of Xi'an Yuansheng; and

(e) any material change in nature or scope of business of Xi'an Yuansheng, or any introduction of new business being different to its core business.

The New JV Articles

As contemplated under the Acquisition Agreement, the Target Company and Chengdu Hongbang will also enter into the New JV Articles prior to Acquisition Completion. The principal terms of the New JV Articles are substantially the same as those of the New JV Agreement.

INFORMATION ON CHENGDU HONGBANG

Chengdu Hongbang is a company incorporated in the PRC with limited liability and is principally engaged in property development and property investment.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Chengdu Hongbang and its ultimate beneficial owners are third parties independent of the Company, its connected persons and the associates of the Company's connected persons other than Xi'an Yuansheng. In addition, the Vendor confirms that, save as contemplated under the Capital Increase Agreement and the Ancillary Agreement, he does not have any relationship, whether business or otherwise, with the shareholders of Chengdu Hongbang.

INFORMATION ON THE TARGET GROUP

The Target Company is incorporated in the British Virgin Islands on 12 April 2007 with limited liability and it is wholly-owned by the Vendor as an investment holding company.

Xi'an Yuansheng is a company incorporated in the PRC with limited liability. As at the Latest Practicable Date, Xi'an Yuansheng has registered capital of RMB20 million and is wholly-owned by Chengdu Hongbang.

In preparation of the Acquisition, the Target Company and Chengdu Hongbang entered into the Capital Increase Agreement on 28 May 2010, pursuant to which the Target Company agreed to make the Capital Injection in a sum of RMB30 million to Xi'an Yuansheng. As at the

Latest Practicable Date, approval from the National Development and Reform Commission of Xi'an for the Second Stage Capital Increase has been obtained and Xi'an Yuansheng is in the process of obtaining all other necessary approvals for the Second Stage Capital Increase from the relevant PRC governmental authorities. Upon completion of the Second Stage Capital Increase, the registered capital of Xi'an Yuansheng will be increased from RMB20 million to RMB50 million, whereby the equity interest in Xi'an Yuansheng will be owned as to 60% by the Target Company and 40% by Chengdu Hongbang.

On 28 May 2010, the Vendor and the shareholders of Chengdu Hongbang entered into the Ancillary Agreement, pursuant to which the Vendor agreed to pay the shareholders of Chengdu Hongbang a sum of RMB254,848,920 (the "**Land Purchase Price**") as the consideration in relation to taking control from Chengdu Hongbang the 60% equity interest in Xi'an Yuansheng to cover the shortfall between the value of the underlying asset of Xi'an Yuansheng, which is the Land, and the amount of the Capital Injection payable by the Target Company under the Capital Increase Agreement. The payment obligation of the Vendor under the Ancillary Agreement is subject to the satisfaction of several conditions including, among others, completion of the Second Stage Capital Increase, obtaining of approval from the Independent Shareholders on the Acquisition and release of the Land Charge. Therefore, the Land Purchase Price has not yet been paid by the Vendor as at the Latest Practicable Date. Notwithstanding the above, the Vendor has undertaken to perform his obligations under the Ancillary Agreement within one month from the Completion Date pursuant to the Acquisition Agreement.

INFORMATION ON THE LAND

Xi'an Yuansheng is principally engaged in development and sale of real estate and property management and owns the land use and development rights of the Land comprising Land A and Land B, which are both located at Caotan Nongchang Dong Qu, Weiyang District, Xi'an City, the PRC. Land A covers a site area of approximately 134,357 square meters for residential use and Land B covers a site area of approximately 19,739 square meters for commercial use. The terms for grant of the land use rights of Land A and Land B are 70 years and 40 years, respectively.

As at the Latest Practicable Date, the Land has not yet been developed and there was no existing buildings or permanent structures on the Land. According to the conditions explanatory note from Xi'an Town Planning Bureau issued to the Land Resources Administration Bureau on 13 May 2010, it is proposed to revise the location and development proposal for the Southeast junction of the Land under the traffic enhancement plan for the surrounding districts at the Xi'an Bei Station of Zhengxi Passenger Railway. As such, the Xi'an Town Planning Bureau has yet been able to review the development project of the Land, leading to the delay in commencement of the construction work.

Pursuant to the Land Contracts, the construction work has to be commenced by 30 December 2008 and completed by 31 December 2010. Failure to meet the above commencement date or completion date may, in each case, result in Xi'an Yuansheng being charged a default payment amounting to 0.1% of the land premium per each day of delay. In addition, if the Land is considered to be idle land, the Land Resources Administration Bureau would be entitled to charge from Xi'an Yuansheng land idling penalties amounting to 20% of the land premium of the Land or even resume the land use rights of the Land without compensation.

As advised by the PRC legal advisers to the Company, provided that there is no other default on the part of Xi'an Yuansheng, Xi'an Yuansheng will not be penalized for its delay in commencement of the construction work nor for idle land issue since the above default is due to delay in the approval process by the relevant PRC governmental authority but without fault on the part of Xi'an Yuansheng. In addition, the construction land planning permit and/or other relevant construction permits to be issued to Xi'an Yuansheng will provide a revised construction period, during which the development of the Land shall be carried out. Furthermore, pursuant to the Acquisition Agreement, the Vendor has undertaken to indemnify the Purchaser against all losses or liabilities suffered by the Purchaser or any member of the Target Group as a result of or in connection with, inter alia, the delay in commencement of the construction work or the Land being considered as idle land, which shall include land idling penalties and other default payments imposed as a result thereof.

As at the Latest Practicable Date, Xi'an Yuansheng confirmed that it had not received any demand for penalty from any PRC government authority arising from the delay in construction work or land idling issue.

However, in the event that the penalty for delay in work commencement and/or the land idling penalty are demanded by the relevant government authority, both the financial condition and the reputation of the Enlarged Group would be materially and adversely affected. Nevertheless, the Company is entitled, pursuant to the Acquisition Agreement, to claim and recover from the Vendor the entire amount of the aforementioned penalties. In view of the above, the financial impact to the Enlarged Group resulting from the penalty for delay in work commencement and/or the land idling penalty could be significantly reduced.

Having taken into account all the relevant factors including, among other things, (i) that the Acquisition is a valuable opportunity for the Group to expand its business to the property market in the PRC, (ii) the likelihood of being charged for the delay in work commencement penalty and the land idling penalty is minimal according to the PRC legal opinion, and (iii) the indemnity given by the Vendor under the Acquisition Agreement as set out above, the Board considers that the terms of the Acquisition are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

The Land is subject to the Land Charge which was created in favour of a financial institution for the Existing Third Parties Loans. Therefore, Acquisition Completion is subject to condition (viii) as set out under the section headed "Conditions Precedent" in this circular being fulfilled.

INFORMATION ON THE PROPERTY PROJECT

According to the latest development proposal in relation to the Land (the "**Proposal**"), the Land would be developed into a residential and commercial area comprising approximately 435,595 square meters for residential use and approximately 90,403 square meters for commercial use (the "**Property Project**"). It is proposed that the Property Project will primarily comprise 21 blocks of 33-storey residential buildings, 2 blocks of 21-storey commercial buildings and one shopping mall. Preliminary works relating to the Property Project will be carried out during the period from the middle of year 2010 to the first quarter of year 2011. The Property Project would be developed in seven phases during the period from the first quarter of year 2011 to the year end of 2015. The preliminary development schedule is as follows:

Phases	**Construction periods**	**Scope of Development**
Phase 1	March 2011 to December 2012	80,000 square meters for residential use; a club house of 1,500 square meters; and an underground car park and equipment rooms of 42,280 square meters
Phase 2	November 2011 to August 2013	60,000 square meters for residential use
Phase 3	March 2012 to December 2013	60,000 square meters for residential use; and the underground car park and equipment rooms of 42,280 square meters
Phase 4	November 2012 to August 2014	50,000 square meters for residential use; and 45,203 square meters for commercial use
Phase 5	March 2013 to December 2014	70,000 square meters for residential use
Phase 6	November 2013 to August 2015	60,000 square meters for residential use
Phase 7	March 2014 to December 2015	55,595 square meters for residential use; and 45,200 square meters for commercial use

According to the Proposal, Xi'an Yuansheng would start generating income in September 2011 through sales of the residential properties developed in phase 1. The Proposal, including the construction program set out above, is at its preliminary stage and is subject to the approval of the relevant governmental authorities. It will also be subject to changes depending on, among others, the availability of sufficient funds for the Property Project.

As at the Completion Date, the registered capital of Xi'an Yuansheng will be RMB50 million and the total investment amount is expected to be RMB100 million. It is estimated that the total development cost of the Property Project would be approximately RMB1,600 million, in which the initial development cost would be approximately RMB150 million (the "**Total Initial Cost**"), comprising a sum of approximately RMB65 million to fund the preliminary works for commencing the development of phase 1 of the Property Project and a sum of approximately RMB85 million as initial construction cost for phase 1 of the Property Project. Thereafter, it is expected that the remaining development cost can be sustained by income generated from the sales of properties and/or bank financing if required. Neither the Target Company nor Chengdu Hongbang has any existing financial commitment or obligation in the contribution of additional funding to Xi'an Yuansheng or to provide guarantee to a third party or financial institutions for any loan to be granted to Xi'an Yuansheng. However, in the event that financial assistance in favour of Xi'an Yuansheng is required, such financial assistance is expected to be provided by the Target Company and Chengdu Hongbang in proportion to their respective equity interests in Xi'an Yuansheng. The provision of financial assistance by the Company to Xi'an Yuansheng will be subject to the requirements of the Listing Rules.

In the event that Xi'an Yuansheng fails to conduct financing itself to support the Total Initial Cost, the Company, through the Target Company, may have to contribute an aggregate of RMB90 million, being the amount of the Total Initial Cost attributable to the Target Company's 60% equity interest in Xi'an Yuansheng. It is currently contemplated that the Company will finance the Property Project by (i) its internal resources, (ii) the remaining balance of proceeds from the placing of the First Tranche Convertible Notes intended for potential investment purpose as mentioned under the section headed "Fund Raising Activities of the Company in the past 12 months" below and (iii) the remaining balance of proceeds from the placing of the Second Tranche Convertible Notes after satisfaction of the Consideration. Further funding requirement for the Property Project may be satisfied by bank loans and/or other means as the Company may consider appropriate depending on the actual development plan finally approved by the relevant governmental authority and the then economic situation.

In addition to those experience and qualification as set out in the Company's annual report for the year ended 31 December 2009, the Vendor, who is an executive Director and the Chairman of the Company, has over 10 years of experience in property development in the PRC covering various areas of development projects such as office buildings and residential premises. In addition, a team of consultants has been informally providing advices to the Company in relation to preliminary works of the Property Project and the Company intends to retain such team of consultants to manage and operate the Target Group upon Acquisition Completion. Members of this team of consultants possess tertiary education degree and diploma qualification in construction, business administration, design and commodity price finance. They have many years of experience in project management, sales and marketing, capital market and finance, human resources, engineering and corporate internal control. Mutual agreement on the terms of employment has already been reached between the Company and each member of the team and employment contracts will be entered into upon Acquisition Completion. The Company will review the operation of the Target Group from time to time and engage additional experts in property development if necessary to ensure that the Target Group will always have sufficient management expertise to manage the development of the Property Project.

FINANCIAL INFORMATION OF THE TARGET GROUP

The audited net loss of the Target Company for the two years ended 31 December 2008 and 31 December 2009 (both before and after taxation) were approximately US$124 and US$216, respectively. The audited net liabilities of the Target Company as at 31 December 2008 and 31 December 2009 were approximately US$417 and US$633, respectively.

Based on the audited financial statements of Xi'an Yuansheng, the financial information of Xi'an Yuansheng for the two years ended 31 December 2009 are as follows:

	For the year ended 31 December 2009 (audited)	For the year ended 31 December 2008 (audited)
Net loss before taxation	US$802,718	US$459,309
Net loss after taxation	US$802,718	US$459,309
Net Liabilities	US$1,922,217	US$1,119,499

The Board would like to draw the Shareholders' attention to the opinions of the reporting accountants on the financial information of Xi'an Yuansheng set out in Appendix IIB to this circular, in particular, that the reporting accountants were not provided with sufficient information regarding the fair values of financial guarantees contracts relating to those guarantees given by Xi'an Yuansheng to the then related companies during the reporting period, details of which are set out in note 23 to the financial information of Xi'an Yuansheng set out in Appendix IIB. The above financial guarantees were given by Xi'an Yuansheng to secure obligations of several companies which are related parties of a former shareholder of Xi'an Yuansheng. Valuation on those financial guarantees contracts has to be performed to assess the fair values of those financial guarantees for the purpose of quantifying the financial effect of the financial guarantees and recognizing the financial impact in the financial information of Xi'an Yuansheng in accordance with Hong Kong Accounting Standards 39 "Financial Instruments: Recognition and Measurement". Financial information of those related companies is required in order to conduct such valuation. However, Xi'an Yuansheng encountered difficulties in obtaining reliable and sufficient financial information of those companies as those companies are no longer related companies of Xi'an Yuansheng and the former shareholder of Xi'an Yuansheng has no obligation to provide Chengdu Hongbang and Xi'an Yuansheng with the requisite financial information. Notwithstanding the above, considering that the above financial guarantees have to be released and discharged prior to Acquisition Completion as one of the Conditions Precedent, the Board is of the opinion that the qualification of the accountants' report on Xi'an Yuansheng does not have any material impact on the Acquisition.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Acquisition Completion, the Target Company will become a wholly-owned subsidiary of the Company and Xi'an Yuansheng will become a 60% non-wholly owned subsidiary of the Company. Accounts of the Target Group will be consolidated into the Group's accounts.

As referred to in the annual report of the Group for the year ended 31 December 2009, the audited consolidated net liabilities of the Group as at 31 December 2009 was approximately US$59,511,000, comprising total assets of approximately US$80,190,000 and total liabilities of approximately US$139,701,000, and the loss of the Group from continuing operations for the year ended 31 December 2009 was approximately US$51,737,000.

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma net liabilities of the Enlarged Group would be approximately US$32,067,000, comprising unaudited pro forma total assets of approximately US$120,495,000 and unaudited pro forma total liabilities of approximately US$152,562,000, and the unaudited pro forma loss of the Enlarged Group from continuing operations would be approximately US$52,152,000.

DUE DILIGENCE REVIEW

The Acquisition Completion is subject to the Purchaser's satisfaction of the due diligence review on the Target Group. Prior to the signing of the Acquisition Agreement, the Company engaged the PRC lawyers and auditors to carry out the due diligence review on, inter alia, the Land and the financial position and legal structure of the Target Group. The Company has also made several due diligence visits to the Land in Xi'an. In addition, the Company has engaged Asset Appraisal Limited to provide a draft valuation report on the Land so as to facilitate the Company's assessment on the Acquisition and the determination of the Consideration thereon. The Company has also reviewed the preliminary feasibility study on the Property Project carried out by the team of consultants.

REASONS FOR AND BENEFIT OF THE ACQUISITION

The Group is principally engaged in the business of manufacturing and sale of wooden products. The current businesses of the Group do not appear promising and thus the Group has been exploring other business development and/or potential investment opportunities. As at the Latest Practicable Date, the Company has not entered into and does not intend to enter into any agreement, arrangement or understanding to dispose of, terminate or scale down its timber business nor is the Company under any negotiation in respect of the foregoing. As disclosed in the Placing Circular, the Company considered to participate in a PRC property development project in Dalian, Liaoning Province, the PRC (the "**Proposed Dalian Project**"), which however has fallen through due to the lapse of time. Subsequently, the Company has been actively exploring other investment opportunities.

The Directors consider that the Acquisition, which provides the Group an opportunity to participate in the real estate market in the PRC, will enable the Group to diversify its business to the property development sector and it is expected that this would provide positive contributions to the operation of the Group in the long run.

Based on the above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Vendor, who is also the executive Director and the Chairman of the Company, is materially interested in the Acquisition Agreement and the transactions contemplated thereunder. Therefore, he had abstained from voting on the relevant Board resolutions approving the Acquisition.

BUSINESS OVERVIEW

As a developer, Xi'an Yuansheng will be responsible for coordinating and supervising the project development process by having specialized personnel in charge of various key stages of the project development, including planning and design, construction and sales and marketing. Xi'an Yuansheng will engage a competent architectural and design firm to carry out the design work of the Property Project based on the type of properties to be developed under the Property Project. The construction work will be outsourced to third party contractors who will be selected through a competitive bidding process. To ensure that the contractors can meet Xi'an Yuansheng's quality requirements, comprehensive due diligence would be conducted on contractors during the bidding process by examining, among others, their track record, industry reputation for quality, professional qualifications, past performance, their financial situation and resources. In respect of procurement, Xi'an Yuansheng will solicit price quotes from at least two prospective suppliers, negotiate the price and other terms with them and then finalize the purchase arrangements with the supplier with the better terms by entering into price confirmations or procurement contracts. Xi'an Yuansheng will be responsible for formulating and implementing the marketing and sales strategies. The marketing and sales activities may be supported through cooperation with external professional marketing and sales service providers.

All of the revenue of Xi'an Yuansheng will be generated substantially from sales of residential and commercial properties under the Property Project or any other development projects in the PRC as may be identified by the Group in the future.

INDUSTRY OVERVIEW ON THE PROPERTY DEVELOPMENT INDUSTRY IN THE PRC

The PRC Economy

Since the PRC government's adoption of the open door policy in 1978, it has experienced significant economic growth, which has been driven further by its accession to the World Trade Organization in 2001. For instance, the gross domestic product ("GDP") of the PRC increased from approximately RMB18,321.7 billion in 2005 to approximately RMB33,535.3 billion in 2009, representing a compound annual growth rate ("CAGR") of approximately 16.3%. The table below sets out certain selected economic statistics of the PRC for the periods indicated.

	2005[(1)]	**2006**[(1)]	**2007**[(1)]	**2008**[(1)]	**2009**[(2)]
Nominal GDP *(RMB in billion)*	18,321.7	21,192.4	25,730.6	30,067.0	33,535.3
Real GDP growth rate *(%)*	10.4%	11.6%	13.0%	9.0%	8.7%
Per capita GDP *(RMB)*	14,053	16,165	19,524	22,698	N/A[#]

\# the figure is not yet available

Sources:

1. China Statistical Yearbook 2009
2. Website of National Bureau of Statistics of the PRC

In line with the nominal GDP growth, the PRC's per capita disposable annual income for urban households increased from RMB10,493 in 2005 to RMB17,175 in 2009, implying increased purchasing power for urban households throughout the PRC. The following table illustrates the per capita disposable annual income for urban households and the corresponding urban population for the periods indicated.

	2005[(1)]	**2006**[(1)]	**2007**[(1)]	**2008**[(1)]	**2009**[(2)]
Per capita disposable annual income for urban households *(RMB)*	10,493	11,760	13,786	15,781	17,175
Urban population *(million)*	562.1	577.1	593.8	606.7	621.9

Sources:

1. China Statistical Yearbook 2009
2. Website of National Bureau of Statistics of the PRC

Property Market in the PRC

The continuous upward trend in the PRC real estate industry is backed by rising prices and strong demand. According to the National Bureau of Statistics of the PRC, a total gross floor area ("GFA") of 702.2 million square meters was completed in the PRC in 2009, representing an increase of approximately 5.5% as compared to 2008. Prices for real estate in the PRC also increased from 2005 to 2008, with the average price per square meter for the overall property market, including both commercial and residential properties, increased from RMB3,168 per square meter in 2005 to RMB3,800 per square meter in 2008, representing a CAGR of 6.3%.

The upward trend in the PRC property market is also evidenced by the growth of revenue from the sale of properties in the PRC. According to the China Statistical Yearbook 2009, the total revenue from real estate development in the PRC increased from approximately RMB1,476.9 billion in 2005 to approximately RMB2,669.7 billion in 2008. During the same period, total GFA sold increased from approximately 554.9 million square meters in 2005 to approximately 659.7 million square meters in 2008.

The table below sets out certain information on the major supply and demand indicators for the periods indicated.

	2005(1)	**2006(1)**	**2007(1)**	**2008(1)**	**2009(2)**
Investment in real estate *(RMB in billion)*	1,590.9	1,942.3	2,528.9	3,120.3	3,623.2
Total GFA completed *(sq.m. in million)*	534.2	558.3	606.1	665.4	702.2
Total GFA sold *(sq.m. in million)*	554.9	618.6	773.5	659.7	937.1
Residential GFA sold *(sq.m. in million)*	495.9	554.2	701.4	592.8	852.9
Average price of properties per sq.m. *(RMB)*	3,168	3,367	3,864	3,800	N/A#
Average price of residential properties per sq.m. *(RMB)*	2,937	3,119	3,645	3,576	N/A#

The figure is not yet available

Sources:

1. China Statistical Yearbook 2009

2. Website of National Bureau of Statistics of the PRC

Property Market in Xi'an

Xi'an, the provincial capital of Shaanxi Province, occupies a total area of approximately 10,108 square kilometers and had a population of approximately 8.4 million in 2009. According to the Xi'an National Economy and Social Development Statistical Communique for 2008 and 2009, the GDP of Xi'an reached approximately RMB271.9 billion in 2009, which is an increase of 14.5% over 2008. The per capita GDP of Xi'an also grew from RMB26,259 in 2008 to RMB32,351 in 2009.

According to the Xi'an National Economy and Social Development Statistical Communique for 2009, properties with a total GFA of 5.4 million square meters were completed in Xi'an in 2009, representing an increase of 53.4% over 2008. A total of 12.6 million square meters of commodity property was sold, of which 12 million square meters was residential property. The total sales revenue of commodity property in 2009 amounted to approximately RMB48.9 billion, representing an increase of 53.8% from 2008 to 2009, of which approximately RMB45.1 billion was from the sales of residential properties.

Competition

The competition in the property industry in the PRC is highly intense and Xi'an city is of no exception. The Target Group's existing and potential competitors include major domestic state-owned and private developers and foreign-funded property developers who focus on developing residential property markets in the PRC. Competitive factors include product quality, service quality, price, financial resources, brand recognition and other factors.

Measures taken by the PRC Government in recent years relating to the PRC Property Market

On 8 March 2010, the Ministry of Land and Resources issued the "Notice on Issues relating to Strengthening Land Supply and Supervision for Real Estate"《關於加強房地產用地供應和監管有關問題的通知》, focusing on the issues of land supply, supervision of law enforcement, publication of information and special examination on outstanding existing problems. This Notice contains 19 regulations, including that the minimum land transfer price shall be no less than 70% of the benchmark price of the same level of land in the same area where the land is located; the bidding deposit shall be no less than 20% of the minimum land transfer price; the land transfer contract must be signed within 10 business days upon the completion of land transfer and the down payment of 50% of the transfer price shall be paid within one month from the contract date, and the balance shall be paid according to the terms and conditions stipulated in the contract with the time limit of no more than one year. For land-use enterprises defaulting in payment of land transfer price, or those who have idle land or engaging in hoarding land and land speculations, or the scale of land development projects exceeding their actual development capability, or those who fail to perform land use contract, the local land resources authorities at city and county level shall prohibit these land users from participating in land bidding for a certain period of time.

On 9 March 2010, the Ministry of Finance and the State Administration of Taxation jointly promulgated the "Notice on Deed Tax Policy regarding the First-time Purchase of Ordinary Residential Premises"《關於首次購買普通住房有關契稅政策的通知》, which clearly states that for two or more purchasers who jointly purchased an ordinary residential premises of 90 square meters or below, if one or more of the purchasers has a previous record of house purchase, then the preferential deed tax policy available to first-time housing purchasers is not applicable to all those joint purchasers.

On 13 April 2010, the Ministry of Housing and Urban-Rural Development issued the "Notice on Issues relating to Further Strengthening the Supervision of the Real Estate Market and Improving the System for Pre-sale of Commodity Housing"《關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知》, which provides that real estate developers shall not take deposits or prepayments or costs of similar nature from purchasers of commodity housing projects without pre-sale permits. For commodity housing projects with pre-sale permits, the real estate developers shall make public all the units available for sale and their sale price at one time within ten days, strictly comply with pre-sale plan to report pricing and clearly set out the external sales price.

The State Council promulgated the "Notice on the Determined Suppression of the Over-rapid Rise of the Real Estate Price in Certain Cities" 《關於堅決遏制部分城市房價過快上漲的通知》(Guo Fa [2010] No.10) on 17 April 2010, which implemented ten relevant regulations to suppress the over-rapid rise of the real estate price in some cities. The major contents of those regulations are as follows:

(1) More stringent differentiation housing loan policies shall be implemented. For families (which include the loan borrower, his/her spouse and minor children) purchasing their first housing unit with a gross floor area of 90 square meters or above for own living purpose, the proportion of down payment for housing loans shall not be less than 30%. For families purchasing their second housing unit on borrowed loans, the proportion of down payment for the housing loans shall not be less than 50% and the loan interest rate shall not be lower than 1.1 times of the benchmark interest rate. For those purchasing their third or more housing units, the down payment proportion and loan interest rate shall be substantially increased, with specific terms to be determined by individual commercial banks in accordance with the principle of risk management.

(2) For regions where the prices of commodity housing are too high and have been surging too rapidly coupled with tight supply, commercial banks may, based on their risk conditions, temporarily halt the granting of housing loans for the purchase of third or more housing units as well as housing loans to non-local citizens not capable of producing payment proof of local tax or social insurance for more than one year. The local governments may, based on actual conditions, adopt temporary measures to restrict the number of housing units purchased within a certain period of time.

(3) Shareholders of real estate developers are prohibited to illegally provide loans, on-lending loans, guarantees or other relevant financing facilities to the developers during the participation in land bidding and development and construction.

(4) Commercial banks shall not grant loans to new projects of real estate developers having idle land and engaging in land speculations, and the securities regulatory departments shall temporarily suspend their applications for listing, re-financing and restructuring of major assets.

(5) In real estate development projects for which pre-sale permits have been obtained or registration for the sales of current housing units having been filed, the real estate developers shall make public the total number of housing units available for sale at one time within a specified period and strictly comply with the pre-sale plan to report pricing and clearly set out the external sales price.

LEGAL AND REGULATORY REQUIREMENTS

Xi'an Yuansheng is required to obtain various permits, licences, certificates and other approvals including but not limited to the land use rights certificate, the qualification certificate for real estate development enterprise (房地產開發企業資質證書), the construction land planning permit (建設用地規劃許可證), construction planning permit (建設工程規劃許可證), permit for commencement of construction work (建設工程施工許可證), pre-sale permit for commodity housing (商品房預售許可證) and certificates or confirmation of completion and acceptance from the relevant PRC authorities at various stages throughout the development of the Property Project. As at the Latest Practicable Date, Xi'an Yuansheng has only obtained the land use rights certificates for Land A and Land B and the qualification certificate for real estate development enterprise. The construction land planning permit previously granted to Xi'an Yuansheng has already expired. As advised by the Company's PRC legal adviser, there is no significant legal impediment to obtain the construction land planning permit, construction planning permit and permit for commencement of construction work provided that there is no irregularity and default on the part of Xi'an Yuansheng. However, failure to obtain any of the above licences or permits could result in delay in the construction program or even termination of the Property Project in the worst case scenario.

Each of the construction land planning permit, construction planning permit and permit for commencement of construction work is expected to be obtained in December 2010, January 2011 and March 2011, respectively.

The Acquisition is not subject to any Land Value Appreciation Tax, but subsequent disposal of the Land or any part thereof will be subject to the Land Value Appreciation Tax.

The regulatory overview of the PRC property industry is set out in Appendix VI to this circular.

RISKS ASSOCIATED WITH THE ACQUISITION

New business segment for the Group

The Acquisition constitutes an investment by the Company in a new business sector which may pose significant challenges to the Company's administrative, financial and operational resources. Since the Company does not have significant experience in the new business, it is not in a position to ascertain the timing and amount of any return or benefits that may be received from the new business. If the Property Project does not proceed as planned, the Company may not recover the funds and resources it has spent, and this may adversely affect the Company's financial condition.

Success depending significantly on the senior management team and other key personnel

Future success of the Group to expand its business in the PRC property development sector is dependent, to a large extent, on the Enlarged Group's ability to retain and/or recruit key management personnel with property development experience. The Vendor, who is an executive Director and the Chairman of the Company, has over 10 years of experience in property development and management in the PRC. In addition, a team of consultants has been informally providing advices to the Company in relation to preliminary works of the Property Project and the Company intends to retain such team of consultants and/or engage additional experts in property development to manage and operate the Target Group upon Acquisition Completion. Failure to retain the above persons or find suitable candidates to replace them could have a material adverse impact on the business, financial condition and results of operations of the Enlarged Group.

Significant capital investment

The development of the Property Project is capital intensive. According to the existing development plan, it is estimated that the total construction and development cost for the Property Project would be approximately RMB1,600 million, in which the Total Initial Cost would be approximately RMB150 million. Since the Property Project will be developed in phases, Xi'an Yuansheng will finance the Property Project through the sale proceeds from the developed phases of the Property Project and/or bank financing if required. There is no guarantee that Xi'an Yuansheng will have sufficient cash flow available for the Property Project or that Xi'an Yuansheng will be able to achieve sufficient sales to fund the Property Project. In addition, there is no assurance that Xi'an Yuansheng will be able to secure external financing on terms acceptable to it or at all.

Depending on the performance of the property market in the PRC

The Property Project is located in Xi'an City of Shaanxi Province. The prospects of the new business and the profitability of the Property Project depend on the performance of the PRC property market, in particular, Xi'an. Any real estate market downturn in the PRC generally or in Xi'an could adversely affect the profitability of the Property Project. The return from the Property Project may further be influenced by fluctuations of supply and demand in the property market, which may in turn be influenced by the general state of the economy and other factors, including government policies. Any economic downturn or over-supply of properties could result in a slowdown in property sales or downward pressure on property prices, which could adversely affect the business of the Enlarged Group.

Intense competition of the PRC property market

The property market in the PRC has been highly competitive in recent years. Property developers from the PRC and overseas have entered the property development market and begun to undertake development and investment projects in Shaanxi Province and elsewhere in the PRC. The Enlarged Group will have to compete with these property developers, as well as with other existing and potential competitors, including state and private property developers in the PRC. Some of the competitors may have greater marketing, financial and technical resources than are available to the Enlarged Group, as well as greater economies of scale, broader name recognition, longer track records and more established relationships in certain regions.

Competition among property developers may result in an increase in costs of raw materials, oversupply of properties, decrease in property prices in certain parts of the PRC or inability to sell such properties, slowdown in the rate at which new property developments will be approved or reviewed by the relevant PRC government authorities or increase in administrative costs for hiring or retaining qualified personnel, any of which may adversely affect the business, financial position and results of operations of the Enlarged Group. If the Enlarged Group cannot respond to changes in market conditions in Shaanxi Province more swiftly and effectively than its competitors, the business, financial position and results of operations of the Enlarged Group may be materially and adversely affected.

The Enlarged Group is subject to multiple regulations of the PRC government authorities

The property development business of the Enlarged Group is regulated by various PRC governmental authorities and departments. If any PRC authority considers that the Enlarged Group or any of its suppliers or contractors in the course of the operations are not in compliance with the PRC regulations, it could delay or even shut down the construction or sales operations, refuse to grant or renew any necessary approvals or licences, institute legal proceedings to seize the properties of the Enlarged Group, enjoin future actions or impose civil and/or criminal penalties, pecuniary or otherwise, against the Enlarged Group, its officers or employees. Any such action by the PRC governmental authorities would have a material adverse effect on the business of the Enlarged Group, causing delays to the Property Project, or termination of it. In recent years, the PRC government has implemented many new laws and regulations or made amendments to existing regulations concerning property developers. It cannot be guaranteed that the Property Project is or will be fully complied with the laws and regulations. If the Enlarged Group is found to have breached, or are accused of not having complied with, or in the future do not comply with, any applicable PRC laws and regulations, the Enlarged Group may be subject to the imposition of penalties or even suspension of business and confiscation of the Land. In such event, the business and reputation of the Enlarged Group may be materially and adversely affected.

Failure or delays in obtaining any of the relevant PRC government approvals for the Property Project

In order to develop and complete a property development, a property developer must obtain various permits, licences, certificates and other approvals from the relevant administrative authorities at various stages of the property development, including land use rights certificates, construction land planning permits, construction works planning permits, permits for commencement of construction work, pre-sale permits and certificates or confirmation of completion and acceptance. Each approval is dependent on the satisfaction of certain conditions. It cannot be assured that the Enlarged Group will not encounter material delays or other impediments in fulfilling the conditions precedent to the approvals, or that the Enlarged Group will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the property industry in general or the particular processes with respect to regulatory approvals. There may also be delays on the part of the relevant regulatory bodies in reviewing the applications and granting approvals. If the Enlarged Group fails to obtain, or encounters material delays in obtaining, the requisite government approvals, the schedule of the completion and sale of the developments could be substantially disrupted and any such disruption would materially and adversely affect the business, financial condition, results of operations and prospects of the Enlarged Group.

Failure to develop the Land according to the terms of the Land Contracts

Under the PRC laws and regulations, if a property developer fails to develop land according to the terms of the land grant contract, including those relating to the payment of land premiums, demolition and resettlement costs and other fees, specified use of the land and the time for commencement and completion of the property development, the PRC government may issue a warning, impose a penalty, and/or order the developer to forfeit the land. Specifically, under current PRC laws, if a developer fails to commence development for more than one year from the commencement date stipulated in the land grant contract, the relevant PRC land bureau may serve a warning notice on the developer and impose a land idle fee on the land of up to 20% of the land premium. If the developer fails to commence development for more than two years, the land is subject to forfeiture to the PRC government without compensation unless the delay in development is caused by PRC government's actions, preparation work or force majeure. In accordance with the "Opinions on Adjusting the Housing Supply Structure and Stabilizing Property Prices"《關於調整住房供應結構穩定住房價格的意見》which became effective in May 2006, even though the commencement of the land development is in line with the land grant contract, if the developed GFA on the land is less than one-third of the total GFA of the project or the total capital invested is less than one-fourth of the total investment in the project and the suspension of the development of the land is over one year without government approval, the land will be treated as idle land. There can be no assurance that circumstances leading to forfeiture or significant delays in the development schedule will not arise in the future. If the Land is forfeited to the government, the Enlarged Group may not be able to recover the costs incurred for the Acquisition or recover part or whole of the development costs incurred up to the date of forfeiture, which could in turn have a material adverse effect on the business, financial condition, results of operations or reputation of the Enlarged Group.

Details of the delay in construction of the Property Project are set out under the section headed "Information on the Land" above.

Delays in completing the Property Project

The progress and costs of the Property Project can be adversely affected by many factors, including:

- delays in obtaining necessary licences, permits or approvals from government agencies or authorities;
- delays in obtaining necessary financings;
- shortage of materials, equipment, contractors and skilled labour;
- labour disputes;
- construction accidents;
- natural catastrophes and adverse weather conditions;
- changes in government policies or relevant laws or regulations.

Construction delays or failure to complete the construction of the Property Project according to its planned specifications, schedule or budget as a result of the above factors may affect the results of operations and financial position of the Enlarged Group and may also cause damage to its reputation. It cannot be assured that there will not be any significant delays in completion or delivery of the Property Project or that the Enlarged Group will not be subject to any liabilities for any such delays.

Potential liability for environmental problems

Property developers in the PRC are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations, which apply to any given project development site, vary greatly according to the site's location, the site's environmental condition, the present and former uses of the site, and the status and use of adjoining properties. Compliance with environmental laws and regulations may result in delays, may cause the Enlarged Group to incur substantial compliance and other costs and can prohibit or severely restrict project development activities in environmentally sensitive regions or areas.

In accordance with the PRC laws and regulations, the Enlarged Group is required to submit an environmental impact assessment report to the competent authority for its approval before the construction of the Property Project commences. There is no assurance that the environmental impact assessment will reveal all environmental liabilities or their extent, and there may be material environmental liabilities of which the Enlarged Group is unaware. In the event that the Enlarged Group is subject to any regulatory action as a result of the failure to carry out such environmental impact assessment fully or at all, the Enlarged Group's reputation, business and financial condition may be adversely affected.

Reliance on independent contractors for construction works

Xi'an Yuansheng will engage independent contractors to carry out construction works of the Property Project. The contractors will be selected through competitive bids and also through assessment of their capabilities and reputation for quality, track records and references. However, there is no assurance that the services rendered by the independent contractors will always be satisfactory or meet Xi'an Yuansheng's quality requirements. Moreover, the independent contractors may undertake projects from other developers, engage in risky undertakings or otherwise encounter financial or other difficulties, which may delay the completion of the Property Project or impose additional costs on the Enlarged Group. Any of the above factors could have a negative impact on the business, financial condition and results of operation of the Enlarged Group.

Disputes with Chengdu Hongbang

The Company carries out the Property Project jointly with Chengdu Hongbang through Xi'an Yuansheng. Such joint venture arrangement involves a number of risks, including:

- disputes with Chengdu Hongbang in connection with the performance of the obligations under the Property Project or the New JV Agreement;
- disputes as to the scope of each party's responsibilities under Xi'an Yuansheng;
- financial difficulties encountered by Chengdu Hongbang affecting their ability to perform its obligations under the Property Project or the New JV Agreement;
- conflicts between the policies or objectives adopted by Chengdu Hongbang and those adopted by the Company.

Any of these and other factors may have material adverse effects on the business of the Enlarged Group.

PRC government policies, regulations and measures intended to curtail the overheating of the real estate market

In response to concerns over the scale of the increase in property investment and the overheating of the real estate sector in the PRC over the past few years, the PRC government has introduced a number of policies to control the rapid growth and curtail the overheating of the PRC property sector. These measures, which details are set out under the section headed "Measures taken by the PRC government in recent years relating to the PRC Property Market" above, among others, imposed various restrictions on lending funds to property developers and extending mortgage loans to property purchasers. The various restrictive measures taken by the PRC government with an aim to control the growth of the property sector may limit the Enlarged Group's access to capital resources and reduce market demand, and in adapting to these measures the Enlarged Group's operating costs may also increase. Also, it cannot be assured that the PRC government will not introduce additional or more stringent measures to regulate the growth of the property sector. If the Enlarged Group fails to adapt its operations to new policies and regulations that may come into effect from time to time with respect to the PRC real estate industry, or if such policy or regulatory changes disrupt the Enlarged Group's business or cause the Enlarged Group to incur additional costs, the business, results of operations and financial condition of the Enlarged Group may be materially and adversely affected.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. The Vendor is an executive Director and the Chairman of the Company. Accordingly, the Vendor is a connected person of the Company and the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Therefore, the Acquisition Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to the Listing Rules. As at the Latest Practicable Date, the Vendor was interested in 1,592,826,000 Shares, representing approximately 4.52% of the issued share capital of the Company; and none of the Vendor's associates held any Share. To the best of the Directors' knowledge, information and belief, having made reasonable enquiries, save for the Vendor and his associates, no Shareholder has a material interest in the Acquisition Agreement and the transactions contemplated thereunder. Therefore, save for the Vendor and his associates, no Shareholder is required to abstain from voting in relation to the resolution(s) to be proposed for approving the Acquisition Agreement and the transactions contemplated thereunder at the SGM.

PLACING OF THE SECOND TRANCHE CONVERTIBLE NOTES

Background

Reference is made to the announcements of the Company dated 6 August 2009, 25 September 2009, 16 October 2009, 29 December 2009 and 14 January 2010 respectively and the Placing Circular in respect of, inter alia, the Placing.

As announced by the Company on 16 October 2009, a resolution was duly passed by the Shareholders to approve (i) the Placing Agreement and the placing of the Fulbond Convertible Notes comprising the First Tranche Convertible Notes and the Second Tranche Convertible Notes and (ii) the grant of specific mandate to the Directors to allot and issue the Conversion Shares upon exercise of the conversion rights under the First Tranche Convertible Notes. Subsequently, placing of the First Tranche Convertible Notes, which was carried out in two tranches, took place on 29 December 2009 and 14 January 2010, respectively.

As disclosed in the Placing Circular, the placing of the Second Tranche Convertible Notes up to the aggregate principal amount of HK$350,000,000 would be proceeded upon finalization of the Group's acquisition in respect of the Proposed Dalian Project; and the proceeds thereunder were intended to be applied to satisfy the consideration for the above acquisition. However, the Proposed Dalian Project has fallen through due to the lapse of considerable time. During this period, the Company has seized an opportunity to invest in the Property Project on the Land. Accordingly, the Company intends to proceed with the placing of the Second Tranche Convertible Notes with the view to raise financing for the Acquisition. In the event that the Acquisition does not proceed, the Company will reserve the proceeds from the placing of the Second Tranche Convertible Notes for any other investment opportunity as may be identified by the Company.

In addition, as set out in the Placing Circular, the net proceeds of up to approximately HK$50,000,000 from the placing of the First Tranche Convertible Notes would be reserved to fund the preliminary works relating to the Proposed Dalian Project and if the Proposed Dalian Project is not ultimately completed, any remaining balance not having been utilized shall be applied as general working capital of the Company. Since the Proposed Dalian Project has fallen through, the Board now wishes to apply the HK$50,000,000 from the placing of the First Tranche Convertible Notes as mentioned above for general working capital of the Company.

In view of the above, the Company proposes to seek the Shareholders' approval at the SGM for the issue of the Second Tranche Convertible Notes and the grant of the Specific Mandate. Since the proceeds (or any part thereof as the Company may consider necessary) generated from the issue of the Second Tranche Convertible Notes would be applied to satisfy the Consideration (whether in whole or in part), the Vendor is considered to have material interest in the placing of the Second Tranche Convertible Notes. Accordingly, the Vendor and his associates will abstain from voting on the resolution to be proposed for approving the issue of the Second Tranche Convertible Notes and the grant of the Specific Mandate. Furthermore, it is currently expected that the Placing Agent will place the Second Tranche Convertible Notes to not less than six independent Placees (who will be independent professional, institutional or other investors), each of whom will be third party independent of (i) the Company and its connected persons; (ii) Chengdu Hongbang; and (iii) Xi'an Yuansheng. In addition, the Placing Agent shall use its best endeavours to procure that no Placee of the Second Tranche Convertible Notes would, upon exercise of the conversion rights attaching to the Second Tranche Convertible Notes and in aggregate with the existing Shares, the Existing Convertible Notes and the Warrants as may be held by it/him, be holding 10% or more of the issued share capital of the Company as enlarged by those Shares falling to be issued under the Second Tranche Convertible Notes, Existing Convertible Notes and Warrants.

On 2 June 2010, the Company and the Placing Agent entered into a side letter to confirm that based on the definition of Long Stop Date in the Placing Agreement, the Placing Agreement shall remain valid, effective and binding.

Save for the change of use of proceeds arising from the Placing as mentioned above, all other terms and conditions of the Placing as set out in the Placing Circular remain unchanged. The Board, having taken into account that (i) the Placing Agreement has already been approved by the Shareholders in October 2009, (ii) the discount of the conversion price to the market price of the Shares has been reduced from approximately 74.36% based on Share price as quoted on the Stock Exchange on the date of the Placing Agreement to approximately 50% based on Share price as quoted on the Stock Exchange on 1 June 2010, being the last trading day prior to the date of the Announcement, (iii) the conversion price of HK$0.01 per Conversion Share is already very close to the par value of the Shares of US$0.001 (equivalent to approximately HK$0.00775); and (iv) the recent favourable market sentiment which may arouse more potential investors' interest in the placing of the Second Tranche Convertible Notes, considers that the terms of the Second Tranche Convertible Notes as set out in the Placing Circular are still fair and reasonable.

Conditions of the Placing of the Second Tranche Convertible Notes

The Placing of the Second Tranche Convertible Notes is conditional upon:

(a) the Stock Exchange granting or agreeing to grant the listing of and permission to deal in the relevant Conversion Shares under the relevant tranche of the placing of the Second Tranche Convertible Notes;

(b) the granting of approval by the Shareholders on the issue of the Second Tranche Convertible Notes and the allotment and issue of the Conversion Shares under the Second Tranche Convertible Notes; and

(c) (if so required by the laws of Bermuda) the approval of the Bermuda Monetary Authority for the issue of the Second Tranche Convertible Notes and the Conversion Shares issuable on conversion of the Second Tranche Convertible Notes has been obtained.

If the conditions are not fulfilled on or before the Long Stop Date, the Placing Agreement shall terminate and neither the Company nor the Placing Agent shall have any claim against the other for any costs or losses (save for any prior breaches of the Placing Agreement).

Completion of the Placing

Completion of the placing of the Second Tranche Convertible Notes shall take place within four Business Days following the date on which the conditions set out above are fulfilled or in such other date as the Company and the Placing Agent shall agree.

The Placing can be completed partially by a maximum of 8 tranches provided that the aggregate principal amount of the Fulbond Convertible Notes to be issued by the Company for each partial completion shall not be less than HK$100,000,000 and in integral multiple of HK$5,000,000 (save for the last tranche of the Placing where the aggregate principal amount of the Fulbond Convertible Notes to be issued by the Company may be less than HK$100,000,000, as the case may be). As disclosed in the announcements of the Company dated 29 December 2009 and 14 January 2010, placing of the First Tranche Convertible Notes took place in 2 tranches on 29 December 2009 and 14 January 2010, respectively. The Company will issue an announcement upon each partial completion of the placing of the Second Tranche Convertible Notes. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the relevant Conversion Shares once the Placing Agent confirms to the Company that the aggregate principal amount of the Second Tranche Convertible Notes to be subscribed by the Placees procured by the Placing Agent has reached HK$100,000,000 and that partial completion of the placing of the Second Tranche Convertible Notes can take place.

REASONS FOR AND BENEFIT OF THE PLACING OF THE SECOND TRANCHE CONVERTIBLE NOTES

The gross proceeds and the net proceeds from the placing of the Second Tranche Convertible Notes will be approximately HK$350,000,000 and HK$343,000,000, respectively. The Board intends to apply the net proceeds (or any part thereof as the Company may consider necessary) obtained from the placing of the Second Tranche Convertible Notes to satisfy the Consideration (whether in whole or in part), and the remaining balance thereof shall be used to finance the Property Project.

Since the Acquisition is a valuable opportunity for the Company to diversify its business to the property development sector, the Board considers that it is a suitable timing for the Company to issue the Second Tranche Convertible Notes to provide the Company with immediate funding. In addition, the placing of the Second Tranche Convertible Notes gives the opportunity to the Company to broaden its shareholder and capital base. Accordingly, the Directors consider that the placing of the Second Tranche Convertible Notes is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

EFFECT ON SHAREHOLDING STRUCTURE

To the best of the Directors' knowledge, information and belief, based on public information, the effects on the shareholding structure of the Company (i) upon full conversion of the Second Tranche Convertible Notes; (ii) after (i) above and upon full conversion of the Existing Convertible Notes; (iii) after (ii) above and upon full exercise of the subscription rights attaching to the outstanding Warrants; and (iv) after (iii) above and upon full exercise of the outstanding Share Options are set out below:

Shareholders	As at the Latest Practicable Date		Upon full conversion of the Second Tranche Convertible Notes		Upon full conversion of the Second Tranche Convertible Notes and the Existing Convertible Notes		Upon full conversion of the Second Tranche Convertible Notes and the Existing Convertible Notes and full exercise of the subscription rights attaching to the outstanding Warrants		Upon full conversion of the Second Tranche Convertible Notes and the Existing Convertible Notes and full exercise of the subscription rights attaching to the outstanding Warrants and the outstanding Share Options	
	No. of Shares	*Approximate shareholding percentage*	*No. of Shares*	*Approximate shareholding percentage*	*No. of Shares*	*Approximate shareholding percentage*	*No. of Shares*	*Approximate shareholding percentage*	*No. of Shares*	*Approximate shareholding percentage*
		%		%		%		%		%
Directors										
Zhang Xi *(Note 1)*	1,592,826,000	4.52	1,592,826,000	2.27	1,592,826,000	1.67	1,592,826,000	1.64	1,684,443,000	1.73
Catherine Chen *(Note 2)*									91,617,000	0.09
Substantial Shareholder										
Wong Hip Keung	4,000,000,000	11.35	4,000,000,000	5.69	4,000,000,000	4.20	4,000,000,000	4.11	4,000,000,000	4.10
Public Shareholders										
Wong Lai Hop	3,450,000,000	9.79	3,450,000,000	4.91	3,450,000,000	3.62	3,450,000,000	3.55	3,450,000,000	3.54
Holders of Second Tranche Convertible Notes *(Note 3)*			35,000,000,000	49.83	35,000,000,000	36.75	35,000,000,000	36.00	35,000,000,000	35.91
Holders of Existing Convertible Notes					25,000,000,000	26.25	25,000,000,000	25.71	25,000,000,000	25.65
Placees of Warrants							1,980,923,092	2.04	1,980,923,092	2.03
Other holders of Share Options									64,132,000	0.07
Other public shareholders	26,200,101,432	74.34	26,200,101,432	37.30	26,200,101,432	27.51	26,200,101,432	26.95	26,200,101,432	26.88
Total	35,242,927,432	100.00	70,242,927,432	100.00	95,242,927,432	100.00	97,223,850,524	100.00	97,471,216,524	100.00

Notes:

1. Mr. Zhang Xi, the Vendor, is an executive Director and the Chairman of the Company.

2. Ms. Catherine Chen is an executive Director.

3. The figures set out in the table are for illustrative purposes only. Pursuant to the terms of the Second Tranche Convertible Notes, no conversion shall be made by the Noteholder unless (i) the Noteholder provides, to the reasonable satisfaction of the Company, evidence that such Noteholder and parties acting in concert with it (as defined under The Codes on Takeovers and Mergers and Share Repurchases) will not be beneficially interested in 30% or more of the then issued share capital and/ or the voting rights of the Company; and (ii) the Company will be able to comply with the public float requirements under the Rule 8.08 of the Listing Rules, immediately upon conversion.

4. The percentages may not add up to 100% due to rounding.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

Save for the placing of the First Tranche Convertible Notes, the Company has not conducted any fund raising activities in the past twelve months before the Latest Practicable Date. Detailed breakdown of the use of the net proceeds from the placing of the First Tranche Convertible Notes in an amount of approximately HK$440,000,000 is set out below:

Net proceeds (approximately)	Intended use of proceeds as announced	Actual use of proceeds
Up to HK$150,000,000	To redeem outstanding convertible notes of the Company	Used as intended
Up to approximately HK$50,000,000	To be reserved to fund the preliminary works relating to the Proposed Dalian Project, provided that if the Proposed Dalian Project is not ultimately completed, any remaining balance not having been utilized shall be applied as general working capital of the Company	As disclosed in the Announcement, the HK$50,000,000 would be applied as general working capital of the Company
Up to approximately HK$14,125,000	For cash outflow to the timber business of the Group	Reserved as intended
Up to approximately HK$31,640,000	As disclosed in the announcement of the Company dated 19 January 2010, such amount, which was originally intended to be used for the food processing and distribution business of the Group as set out in the Placing Circular, would be applied as general working capital of the Group and/or funding for potential investment when opportunities arise	Approximately HK$13,516,000 used as general working capital of the Group and the remaining balance of HK$18,124,000 reserved as intended
Up to approximately HK$178,600,000	As available cash which may be necessary to honour the Company's financial obligations	Used as intended
Remaining balance of approximately HK$15,635,000	To be reserved for the operation of the Company	Reserved as intended

The unutilised proceeds from the placing of the First Tranche Convertible Notes as mentioned above are placed in bank deposit.

SGM

A notice convening the SGM is set out on pages SGM-1 to SGM-4 of this circular. The SGM will be held at Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 20 July 2010 at 11:00 a.m. or any adjournment thereof, for the purpose of considering and, if thought fit, approving, by way of poll, among other things, (i) the Acquisition Agreement and the transactions contemplated thereunder; and (ii) the issue of the Second Tranche Convertible Notes and the Specific Mandate.

A proxy form for use at the SGM is enclosed. Whether or not you propose to attend the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

Based on the reasons set out in the sections headed "Reasons for and benefit of the Acquisition" and "Reasons for and benefit of the placing of the Second Tranche Convertible Notes" above, the Board considers that the terms of the Acquisition and the placing of the Second Tranche Convertible Notes are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM to consider and, if though fit, approve the Acquisition Agreement and the transactions contemplated thereunder, the issue of the Second Tranche Convertible Notes and the Specific Mandate.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 40 of this circular, which contains its recommendation to the Independent Shareholders in respect of the Acquisition and the placing of the Second Tranche Convertible Notes, and (ii) the letter of advice from Guangdong Securities, which contains its advice to the Independent Board committee and the Independent Shareholders in relation to the Acquisition and the placing of the Second Tranche Convertible Notes and the principal factors and reasons considered by it in arriving at its opinions. The text of the letter from Guangdong Securities is set out on pages 41 to 61 of this circular.

ADDITIONAL INFORMATION

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

By Order of the Board
Fulbond Holdings Limited
Zhang Xi
Chairman

福邦控股

Fulbond Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1041)

28 June 2010

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND THE ASSIGNMENT OF THE SHAREHOLDER'S LOAN OF ALLYWING INVESTMENTS LIMITED

We refer to the circular dated 28 June 2010 (the "**Circular**") issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board to advise you as to whether the terms of the Acquisition Agreement and the placing of the Second Tranche Convertible Notes and the respective transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Details of the Acquisition Agreement and the placing of the Second Tranche Convertible Notes are set out in the section headed "Letter from the Board" of the Circular.

Guangdong Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the placing of the Second Tranche Convertible Notes and the respective transactions contemplated thereunder. The text of the letter of advice from Guangdong Securities containing its advice and the principal factors and reasons it has taken into consideration in arriving at its advice is set out on pages 41 to 61 of the Circular.

Having taken into consideration the advice of, and the principal factors and reasons considered by, Guangdong Securities in relation thereto as stated in its letter, we consider that the terms of the Acquisition Agreement and the placing of the Second Tranche Convertible Notes and the respective transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition Agreement and the placing of the Second Tranche Convertible Notes and the respective transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Hong Po Kui, Martin **Yu Pan** **Ma Yin Fan** **Leung Hoi Ying**

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Second Placing (as defined herein) for the purpose of inclusion in this circular.

粵海證券有限公司
GUANGDONG SECURITIES LIMITED

Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

28 June 2010

To: The independent board committee and the independent shareholders of Fulbond Holdings Limited

Dear Sirs,

(I) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND THE ASSIGNMENT OF THE SHAREHOLDER'S LOAN OF ALLYWING INVESTMENTS LIMITED AND (II) PLACING OF THE SECOND TRANCHE CONVERTIBLE NOTES UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the placing of the Second Tranche Convertible Notes (the "**Second Placing**"), details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 28 June 2010 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As announced by the Company on 9 June 2010, the Purchaser, which is a wholly-owned subsidiary of the Company, and the Vendor entered into the Acquisition Agreement on 1 June 2010, pursuant to which the Purchaser has conditionally agreed to acquire the Sale Share, which represents the entire issued share capital of the Target Company, and the Shareholder's Loan at the cash Consideration of RMB284,848,920 (equivalent to approximately HK$324,727,769).

According to the Board Letter, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. In addition, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules, and is therefore subject to the Independent Shareholders' approval under Chapter 14A of the Listing Rules at the SGM whereby the Vendor and his associates shall be required to abstain from voting.

As announced by the Company on 16 October 2009, a resolution was duly passed by the then Shareholders to approve (i) the Placing Agreement and the placing of the Fulbond Convertible Notes comprising the First Tranche Convertible Notes and the Second Tranche Convertible Notes; and (ii) the grant of specific mandate to the Directors to allot and issue the Conversion Shares upon exercise of the conversion rights under the First Tranche Convertible Notes. Subsequently, placing of the First Tranche Convertible Notes, which was carried out in two tranches, took place on 29 December 2009 and 14 January 2010, respectively.

As disclosed in the Placing Circular, the placing of the Second Tranche Convertible Notes up to the aggregate principal amount of HK$350,000,000 would be proceeded upon finalisation of the Group's acquisition in respect of the Proposed Dalian Project; and the proceeds from which were intended to be applied to satisfy the consideration for the above acquisition. However, the Proposed Dalian Project has fallen through due to lapse of considerable time. During this period, the Company has seized an opportunity to invest in the Property Project on the Land. Accordingly, the Company intends to proceed with the Second Placing in order to raise financing for the Acquisition. In the event that the Acquisition does not proceed, the Company will reserve the proceeds from the Second Placing for any other investment opportunity as may be identified by the Company.

In view of the above, the Company proposes to seek the Shareholders' approval at the SGM for the issue of the Second Tranche Convertible Notes and the grant of the Specific Mandate. Since the proceeds (or any part thereof as the Company may consider necessary) generated from the issue of the Second Tranche Convertible Notes would be applied to satisfy the Consideration (whether in whole or in part), the Vendor is considered to have material interest in the Second Placing. Accordingly, the Vendor and his associates will abstain from voting on the resolution(s) to be proposed for approving the issue of the Second Tranche Convertible Notes and the grant of the Specific Mandate.

An Independent Board Committee comprising Mr. Hong Po Kui, Martin, Mr. Yu Pan, Ms. Ma Yin Fan and Mr. Leung Hoi Ying (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Acquisition Agreement and the Second Tranche Convertible Notes are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisition and the Second Placing are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Acquisition Agreement, the issue of the Second Tranche Convertible Notes and the grant of the Specific Mandate, and the respective transactions contemplated thereunder at the SGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group and the Target Group and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report on the Land (the "**Valuation Report**") as set out in Appendix V to the Circular. The Valuation Report was prepared by Asset Appraisal Limited, an independent valuer (the "**Valuer**"), and is in compliance with the requirements contained in Chapter 5 of and Practice Note 12 to the Listing Rules; and the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1st January 2005. Since we are not experts in the valuation of properties and land, we have relied solely upon the Valuation Report for the market value of the Land as at 30 April 2010 (the "**Valuation**").

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Vendor, the Target Group, the Placing Agent, the Placee(s) or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition and the Second Placing. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

(I) THE ACQUISITION

In arriving at our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

Background of the Acquisition

Information on the Group

As referred to in the Board Letter, the Group is principally engaged in the business of manufacturing and sale of wooden products.

Set out below are the audited financial information of the Group for two years ended 31 December 2009 as extracted from the Company's annual report for the year ended 31 December 2009 (the "**Annual Report**"):

	For the year ended 31 December 2009	**For the year ended 31 December 2008**	**% change from 2008 to 2009**
	US$'000	*US$'000*	
Continuing operations			
Turnover	15,605	21,883	(28.69)
Gross profit	1,832	4,306	(57.45)
Loss for the year from continuing operations	(51,737)	(12,107)	327.33
Discontinued operations			
Loss for the year from discontinued operations	(2,371)	(20,147)	(88.23)

As depicted from the above table, the Group's turnover as well as gross profit from continuing operations (being the timber business) for the year ended 31 December 2009 had been shrinking as compared to the year ended 31 December 2008. Moreover, the Group recorded a loss from continuing operations of approximately US$51.74 million for the year ended 31 December 2009 which was mainly due to the net losses in fair values of derivative financial instruments and warrants of approximately US$47.04 million. According to the Annual Report and as further confirmed by the Directors, the Group disposed of its food processing and distribution business during the 2009 financial year since the performance of the food processing and distribution business was below the expectation of the Group. From the above table and as also referred to in the Board Letter, the Group's current businesses do not appear promising and thus the Group has been exploring other business development and/or potential investment opportunities.

Information on the Target Group

The Target Company was incorporated in the British Virgin Islands on 12 April 2007 with limited liability. As at the Latest Practicable Date, the Target Company was wholly owned by the Vendor as an investment holding company.

Xi'an Yuansheng is a company incorporated in the PRC with limited liability and was wholly owned by Chengdu Hongbang. As at the Latest Practicable Date, Xi'an Yuansheng did not have other material assets other than the ownership of the Land.

In preparation of the Acquisition, the Target Company and Chengdu Hongbang entered into the Capital Increase Agreement on 28 May 2010, pursuant to which the Target Company has agreed to make the Capital Injection in a sum of RMB30 million to Xi'an Yuansheng. Upon completion of the Second Stage Capital Increase, the registered capital of Xi'an Yuansheng will be increased from RMB20 million to RMB50 million, whereby the equity interest in Xi'an Yuansheng will be owned as to 60% by the Target Company and 40% by Chengdu Hongbang.

It is the current intention that the Company, through its indirect interest in the Target Company upon the Acquisition Completion, will jointly develop the Land with Chengdu Hongbang on a 60% to 40% basis. Accordingly, the Target Company and Chengdu Hongbang will enter into the New JV Agreement and the New JV Articles prior to the Acquisition Completion in respect of Xi'an Yuansheng to formalise such arrangement.

With reference to the Board Letter, the audited net loss (both before and after taxation) of the Target Company for the two years ended 31 December 2008 and 31 December 2009 were approximately US$124 and US$216 respectively. The audited net liabilities of the Target Company as at 31 December 2008 and 31 December 2009 were approximately US$417 and US$633 respectively. As advised by the Directors, the aforesaid loss made by the Target Company was primarily attributable to the administrative expenses.

On the other hand, Xi'an Yuansheng recorded an audited net loss after tax of approximately US$802,718 for the year ended 31 December 2009 and audited net liabilities of approximately US$1,922,217 as at 31 December 2009. As advised by the Directors, the loss made by Xi'an Yuansheng was primarily attributable to the administrative expenses and the finance costs; while the net liabilities it recorded were mainly composed of bank borrowings and amount due to related companies.

Information on the Land

As referred to in the Board Letter, the Land has not yet been developed and there was no existing buildings or permanent structures on the Land. Pursuant to the Land Contracts, the construction work has to be commenced by 30 December 2008 and completed by 31 December 2010. Failure to meet the above commencement date or completion date may, in each case, result in Xi'an Yuansheng being charged a default payment. Moreover, if the Land is considered to be idle land, the Land Resources Administration Bureau of the PRC would be entitled to charge from Xi'an Yuansheng land idling penalties or even resume the land use rights of the Land without compensation.

As extracted from the Board Letter, the PRC legal advisers to the Company have advised that provided that there is no other default on the part of Xi'an Yuansheng, Xi'an Yuansheng will not be penalised for its delay in commencement of the construction work nor for idle land issue since the above default is due to delay in the approval process by the relevant PRC government authority but without fault on the part of Xi'an Yuansheng. Furthermore, the construction land planning permit and/or other relevant construction permits to be issued to Xi'an Yuansheng will provide a revised construction period, during which the development of the Land shall be carried out. In relation to the above, the Acquisition Agreement also stipulates an undertaking from the Vendor that the Purchaser should be indemnified against all losses or liabilities suffered by the Purchaser or any member of the Target Group as a result of or in connection with, inter alia, the delay in commencement of the construction work or the Land being considered as idle land, which shall include land idling penalties and other default payments imposed as a result thereof.

Information on the Property Project

Under the Proposal, the Land would be developed into the Property Project, being a residential and commercial area comprising approximately 435,595 square meters for residential use and approximately 90,403 square meters for commercial use following the Proposal. It is proposed that the Property Project will be consisted of 21 blocks of 33-storey residential buildings, two blocks of 21-storey commercial buildings and one shopping mall. Preliminary work relating to the Property Project will be carried out during the period from the middle of year 2010 to the first quarter of year 2011. The Property Project would be developed in seven phases during the period from the first quarter of year 2011 to the year end of 2015. The preliminary development schedule of the Property Project is included under the section headed "Information on the Property Project" in the Board Letter. Under the Proposal, Xi'an Yuansheng would start generating income in September 2011 through the sales of the residential properties developed in phase 1.

Shareholders should note that the Proposal, including the construction program set out therein, is in its preliminary stage and is subject to the approval of the relevant government authorities. The Proposal is also subject to changes depending on, among other things, the availability of sufficient funds for the Property Project.

As extracted from the Board Letter, it is estimated that the total development cost of the Property Project would be of approximately RMB1,600 million, of which a sum of approximately RMB65 million would be required to carry out the preliminary works for commencing the development of phase 1 of the Property Project and a sum of approximately RMB85 million as the initial construction cost for phase 1 of the Property Project (the RMB150 million altogether, the "**Total Initial Cost**"). Thereafter, it is expected that the remaining development cost can be sustained by income generated from the sales of properties and/or bank financing (if required).

As confirmed by the Directors, given that the Target Company is interested in 60% of the equity interest in Xi'an Yuansheng, the Company (through the Target Company) may have to contribute an aggregate of RMB90 million, being the amount of the Total Initial Cost attributable to the Target Company's 60% equity interest in Xi'an Yuansheng, in the event that the Target Group fails to conduct financing itself to support the Total Initial Cost. Regarding such funding, it is currently contemplated that the Company will finance the Property Project by (i) its internal resources; (ii) the remaining balance of proceeds from the placing of the First Tranche Convertible Notes intended for the potential investment purpose as mentioned under the section headed "Fund raising activities of the Company in the past 12 months" in the Board Letter; and (iii) the remaining balance of proceeds from the placing of the Second Tranche Convertible Notes. Further funding requirement for the Property Project may be satisfied by bank loans and/or other means as the Company may consider appropriate depending on the actual development plan finally approved by the relevant government authority and the then economic situation.

Reasons for the Acquisition

According to the Board Letter and as aforementioned, the Group's current businesses do not appear promising and thus the Group has been exploring other business development and/or potential investment opportunities. As disclosed in the Placing Circular, the Company considered to participating in the Proposed Dalian Project, which however has fallen through due to lapse of time. The Company has been actively exploring other investment opportunities subsequently since then.

The Directors are of the view that the Acquisition, which provides the Group an opportunity to participate in the real estate market in the PRC, will enable the Group to diversify its business into the property development sector and would likely to provide positive contributions to the operation of the Group in the long run.

Based on our independent research from World Bank Report on East Asia and Pacific Economic Update 2010 Vol 1, the economy of the PRC slowed down during the global financial tsunami in 2008. Nevertheless, it was able to recover and the gross domestic product of the PRC grew by approximately 8.7% in 2009 as compared to the previous year, which was largely triggered by the government-led investment and real estate market investment. In this relation, we also noted from the statistics released by the National Bureau of Statistics of China that the total real estate investment in the PRC for the four months period ended 30 April 2010 was amounted to approximately RMB993.2

billion, representing an increase of approximately 36.2% as compared to the corresponding period of 2009. During the same four-month period, the total sales of residential buildings, office buildings and buildings for commercial uses also increased by approximately 30.3%, 13.3% and 38.8% respectively as compared to the corresponding period of 2009.

Apart from the aforesaid growth in the real estate market in the PRC, the expansion in the real estate market of Shaanxi Province, the PRC may also shed lights on the prospects of the Property Project. According to the National Bureau of Statistics of China, the total real estate investment in Shaanxi Province was amounted to approximately RMB22.69 billion from January to April 2010, representing an increase of approximately 25.2% as compared to the corresponding period of 2009. Furthermore, the prices of residential properties in Xi'an city of Shaanxi Province in April 2010 also grew by approximately 13.4% and 1.2% respectively as compared to April 2009 and March 2010 respectively.

In view of the above reasons for the Acquisition together with the favorable statistics of the real estate market in the PRC, we consider that the reasons for the Acquisition are justifiable. Given also the possible benefits of the Acquisition to the Group as represented by the Directors, together with the minimal likelihood of Xi'an Yuansheng being charged for the delay in work commencement penalty and the land idling penalty of the Land in accordance with the PRC legal opinion and the indemnity given by the Vendor under the Acquisition Agreement as mentioned under the section headed "Information on the Land" above, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Acquisition Agreement

The Acquisition Agreement

The Acquisition Agreement was entered into between the Purchaser and the Vendor on 1 June 2010. Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to purchase the Sale Share, representing the entire issued share capital of the Target Company and the Shareholder's Loan at the cash Consideration of RMB284,848,920 (equivalent to approximately HK$324,727,769) from the Vendor.

As confirmed by the Directors, the Group intends to finance the Consideration by internal resources and/or the proceeds from the Second Placing.

In preparation of the Acquisition, the Target Company and Chengdu Hongbang entered into the Capital Increase Agreement on 28 May 2010, pursuant to which the Target Company has agreed to make the Capital Injection in a sum of RMB30 million to Xi'an Yuansheng. Upon completion of the Second Stage Capital Increase, the registered capital of Xi'an Yuansheng will be increased from RMB20 million to RMB50 million, whereby the equity interest in Xi'an Yuansheng will be owned as to 60% by the Target Company and 40% by Chengdu Hongbang.

Basis of the Consideration

As referred to in the Board Letter, the Consideration was determined after arm's length negotiations between the parties thereto, having taken into account (i) the appraised value of the Land determined by the Valuer; and (ii) the total consideration payable by the Vendor for the purpose of acquiring the ownership of 60% equity interest in Xi'an Yuansheng, comprising the Capital Injection in the sum of RMB30 million (equivalent to approximately HK$34.2 million) under the Capital Increase Agreement and the Land Purchase Price in the sum of RMB254,848,920 (equivalent to approximately HK$290,527,769) under the Ancillary Agreement.

Pursuant to a condition precedent to the Acquisition Agreement, save and except for the Shareholder's Loan, all loans, debts, liabilities or other financial facilities outstanding or available to the Target Group (including the Target Company and Xi'an Yuansheng) shall have been fully settled and the Target Group shall have no liabilities on Acquisition Completion. As such, based on our calculation, the Consideration represents a discount of approximately 9.94% (the "**Consideration Discount**") to RMB316 million, being the sum of (i) 60% of the aggregate increase in the total registered capital of Xi'an Yuansheng following the First Stage Capital Increase as well as the Second Stage Capital Increase; (ii) 60% of the Valuation; (iii) 100% of the audited net liabilities of the Target Company as at 31 December 2009; and (iv) 60% of the audited total assets of Xi'an Yuansheng (excluding the relevant asset value of the Land) as at 31 December 2009.

To assess the fairness and reasonableness of the Consideration, we have reviewed the Valuation Report and enquired into the Valuer on the methodology adopted and the basis and assumptions used in arriving at the Valuation. In the course of our enquiry, we noted that the Valuer carried out a site visit to the Land in April 2010 to research for the necessary information for determining the market value of the Land as at 30 April 2010. As extracted from the Valuation Report, the Valuer has adopted the comparison method under the market approach for the Valuation. As confirmed by the Valuer, the market approach is commonly adopted for valuation of properties and is also consistent with normal market practice.

Further details of the basis and assumptions of the Valuation are included in the Valuation Report as contained in Appendix V to the Circular. During our discussion with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation. However, Shareholders should note that valuation of assets or companies usually involves assumptions and therefore the Valuation may or may not reflect the true market value of the Land accurately.

Taking into consideration the basis of determination of the Consideration and the Consideration Discount, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

The Put Option

Pursuant to the Acquisition Agreement, the Purchaser has a right to exercise the Put Option to require the Vendor to purchase back from the Purchaser the Sale Share (together with the New Shareholder's Loan) at the Option Price in the event that a new construction land planning permit (建設用地規劃許可證) or the renewal of the existing construction land planning permit for the Land upon such terms and conditions as may be acceptable to the Purchaser cannot be obtained on or before the Latest Issue Date. The Put Option is exercisable up to the expiry of 12 months from the Latest Issue Date, and the exercise of the Put Option is at the discretion of the Purchaser. The Put Option is granted in consideration of the Purchaser agreeing to purchase the Sale Share and the Shareholder's Loan and thus no premium is required to be paid by the Purchaser for the grant of the Put Option.

Given that the construction land permit for the Land is essential for the development of the Property Project, we concur with the Directors that the obtaining of the Put Option at no premium would safeguard the interest of the Group.

Other terms of the Acquisition Agreement

We have also reviewed the other major terms of the Acquisition Agreement and are not aware of any terms which are uncommon. Consequently, we consider that the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Possible financial effects of the Acquisition

As confirmed by the Directors, upon the Acquisition Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and Xi'an Yuansheng will become an indirect 60% owned subsidiary of the Company. Accordingly, the financial results of the Target Group will be consolidated into the financial statements of the Group.

Effect on net asset value/liabilities

As extracted from the Annual Report, the audited consolidated net liabilities of the Group were approximately US$59.51 million as at 31 December 2009. Based on the unaudited pro-forma financial information of the Enlarged Group as contained in Appendix III to the Circular, the consolidated net liabilities of the Enlarged Group would decrease to approximately US$32.07 million upon the Acquisition Completion.

Effect on earnings

In light of the prospects of the Target Group as anticipated by the Directors, the Directors expected that the Acquisition would likely to have a positive impact on the future earnings of the Enlarged Group since the Company will be able to consolidate the financial results of the Target Group into its consolidated financial statements upon the Acquisition Completion.

Effect on gearing and working capital

As confirmed by the Directors, the Group's gearing ratio (calculated on the basis of (i) warrants, convertible notes, bank and other borrowings; and (ii) total assets) was approximately 57.1% as at 31 December 2009. From the unaudited pro-forma financial information of the Enlarged Group as contained in Appendix III to the Circular, the Enlarged Group's (i) warrants, convertible notes, bank and other borrowings; and (ii) the total assets, would become approximately US$106.61 million and US$120.50 million respectively upon the Acquisition Completion. The gearing ratio of the Enlarged Group would hence be decreased to approximately 46.9% upon the Acquisition Completion.

According to the Annual Report, the Group's total working capital (i.e. total current assets minus total current liabilities) was approximately US$(14.61) million as at 31 December 2009. With reference to the unaudited pro-forma financial information of the Enlarged Group as contained in Appendix III to the Circular, the Enlarged Group's total working capital would become US$12.83 million upon the Acquisition Completion.

Furthermore, as mentioned under the section headed "Information on the Property Project" of this letter, out of the Total Initial Cost, the Company, through the Target Company, may have to contribute RMB90 million on the basis of its 60% equity interest in Xi'an Yuansheng. As such, the Acquisition may further tighten the working capital and/or worsen the gearing position of the Enlarged Group (depending on the then method of financing conducted by the Company and/or the Target Group for such capital investment) before the development cost of the Property Project can be sustained by income generated from the sales of properties.

As further stated under the section headed "Information on the Land" in the Board Letter, in the event that the penalty for delay in work commencement and/or the land idling penalty of the Land are demanded by the relevant PRC government authority, the financial condition of the Enlarged Group would be materially and adversely affected. Nevertheless, in light of that the Company is entitled, pursuant to the Acquisition Agreement, to claim and recover from the Vendor the entire amount of the above penalties, the Board is of the view that the financial impact to the Enlarged Group resulting from the above penalties could be significantly reduced.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company will be upon the Acquisition Completion.

Risk factors

The Acquisition may increase the level of risk exposure of the Group. Independent Shareholders should be aware of the risk factors as set out under the section headed "Risks associated with the Acquisition" in the Board Letter, which may not be exhaustive. We are of the view that Independent Shareholders should bear in mind all the risk factors when considering the Acquisition since they may have different risk preference and are of varied risk tolerance level.

RECOMMENDATION ON THE ACQUISITION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

(II) THE SECOND PLACING

In arriving at our opinion in respect of the Second Placing, we have taken into consideration the following principal factors and reasons:

Background and reasons for the Second Placing

As announced by the Company on 16 October 2009, a resolution was duly passed by the then Shareholders to approve (i) the Placing Agreement and the placing of the Fulbond Convertible Notes comprising the First Tranche Convertible Notes and the Second Tranche Convertible Notes; and (ii) the grant of specific mandate to the Directors to allot and issue the Conversion Shares upon exercise of the conversion rights under the First Tranche Convertible Notes. Subsequently, placing of the First Tranche Convertible Notes, which was carried out in two tranches, took place on 29 December 2009 and 14 January 2010, respectively.

As disclosed in the Placing Circular, the placing of the Second Tranche Convertible Notes up to the aggregate principal amount of HK$350,000,000 would be proceeded upon finalisation of the Group's acquisition in respect of the Proposed Dalian Project; and the proceeds from which were intended to be applied to satisfy the consideration for the above acquisition. However, the Proposed Dalian Project has fallen through due to lapse of considerable time. During this period, the Company has seized an opportunity to invest in the Property Project on the Land. Accordingly, the Company intends to proceed with the Second Placing in order to raise financing for the Acquisition. In the event that the Acquisition does not proceed, the Company will reserve the proceeds from the Second Placing for any other investment opportunity as may be identified by the Company.

Save for the change of use of proceeds arising from the Placing as mentioned above, all other terms and conditions of the Placing as set out in the Placing Circular remain unchanged. As extracted from the Board Letter, the Board, having taken into account that (i) the Placing Agreement has already been approved by the then Shareholders in October 2009; (ii) the discount of the conversion price to the market price of the Shares has been reduced from approximately 74.36% based on Share price as quoted on the Stock Exchange on the date of the Placing Agreement to approximately 50% based on Share price as quoted on the Stock Exchange on 1 June 2010, being the last trading day prior to the date of the Announcement (the "**Last Trading Day**"); (iii) the conversion price of HK$0.01 per Conversion Share is already very close to the par value of the Shares of US$0.001 (equivalent to approximately HK$0.00775 based on the exchange rate of US$1: HK$7.75); and (iv) the recent favorable market sentiment which may arouse more potential investors' interest in the Second Placing, considers that the terms of the Second Tranche Convertible Notes as set out in the Placing Circular are still fair and reasonable.

The gross proceeds and the net proceeds from the Second Placing will be of approximately HK$350 million and HK$343 million, respectively. The Board intends to apply the net proceeds (or any part thereof as the Company may consider necessary) obtained from the Second Placing to satisfy the Consideration (whether in whole or in part), and the remaining balance thereof shall be used to finance the Property Project.

With reference to the Board Letter, since the Board considers the Acquisition to be a valuable opportunity for the Company to diversify its business into the property development sector, the Board is of the view that it is a suitable timing for the Company to issue the Second Tranche Convertible Notes, being a readily available financing method for the Group, to provide the Company with immediate funding. In addition, the Second Placing gives the opportunity for the Company to broaden its shareholder and capital base without incurring interest burden on the Group. For the above reasons, the Directors consider that the placing of the Second Tranche Convertible Notes is fair and reasonable to the Shareholders and the Company as a whole.

Based on the foregoing, together with the fact that (i) the Acquisition as concluded above is in the interests of the Company and the Shareholders as a whole; and (ii) the Board intends to apply the net proceeds (or any part thereof as the Company may consider necessary) obtained from the Second Placing to satisfy the Consideration (whether in whole or in part), and the remaining balance thereof shall be used to finance the Property Project, we concur with the Directors that the Second Placing is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Second Tranche Convertible Notes

The table below summarises the major terms of the Second Tranche Convertible Notes:

Date of the Placing Agreement:	6 August 2009
Parties:	(i) the Company (ii) the Placing Agent
Principal amount:	Up to HK$350,000,000
Maturity Date:	28 December 2012, being the date falling upon the expiry of three years from the date on which the Fulbond Convertible Notes were first issued.
Interest:	Nil
Terms of conversion:	Each holder may convert the whole or part of the principal amount of the relevant Second Tranche Convertible Notes (in multiple of HK$500,000 at any one time of conversion) into new Shares unless the principal amount of the outstanding Second Tranche Convertible Notes are less than HK$500,000 in which case the whole (but not part only) of such outstanding principal amount of the Second Tranche Convertible Notes shall be converted.
Conversion price:	HK$0.01 per Conversion Share (subject to adjustments) (the "**Conversion Price**").

As confirmed by the Directors, the terms of the Second Tranche Convertible Notes (including the Conversion Price) were agreed after arm's length negotiations between the Company and the Placing Agent.

The Conversion Price

The Directors confirmed that the Conversion Price was arrived at with reference to the market price of the Shares and the net asset value of the Company as at the date of the Placing Agreement.

The Conversion Price represents:

(i) a discount of approximately 47.37% to the closing price of HK$0.0190 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of 50.00% to the closing price of HK$0.0200 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 50.50% to the average of the closing prices of approximately HK$0.0202 per Share for the five trading days of the Shares up to and including the Last Trading Day, and

(iv) a discount of approximately 48.19% to the average of the closing prices of approximately HK$0.0193 per Share for the ten trading days of the Shares up to and including the Last Trading Day.

To assess the fairness and reasonableness of the Conversion Price, we set out the following informative analyses for illustrative purpose:

Review on Share prices

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 1 June 2009 up to and including the Last Trading Day (the "**Review Period**") are shown as follows:

Month	**Highest closing price** *(HK$)*	**Lowest closing price** *(HK$)*	**Average daily closing price** *(HK$)*	**No. of trading days in each month**
2009				
June	0.032	0.025	0.029	22
July	0.040	0.023	0.030	22
August	0.042	0.025	0.032	21
September	0.039	0.025	0.031	22
October	0.036	0.030	0.033	20
November	0.043	0.033	0.039	21
December *(Note)*	0.059	0.042	0.048	18
2010				
January	0.054	0.039	0.046	20
February	0.044	0.035	0.038	18
March	0.035	0.028	0.031	23
April	0.032	0.026	0.029	19
May	0.026	0.016	0.021	20
June (up to and including the Last Trading Day)	0.020	0.020	0.020	1

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

Note: Trading in the Shares was suspended from 4 December 2009 to 9 December 2009 (both days inclusive).

During the Review Period, the average daily closing price of the Shares ranged from approximately HK$0.020 to HK$0.048 per Share in each month. From December 2009 onwards, the Share prices also showed a persistent downward moving trend until June 2010 (up to the Last Trading Day). The highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK$0.059 per Share recorded on 15 December 2009 and HK$0.016 per Share recorded on 20 May 2010 respectively. We noted that the highest closing price of the Shares of HK$0.059 represented a substantial premium of approximately 268.75% over the recent lowest closing price of the Shares of HK$0.016.

Review on trading liquidity of the Share

The average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public on the date of the Announcement; and (ii) the total number of issued Shares on the date of the Announcement during the Review Period are tabulated as follows:

Month	**Average daily trading volume (the "Average Volume")**	**% of the Average Volume to total number of issued Shares held by the public on the date of the Announcement** *(Note 2)*	**% of the Average Volume to total number of issued Shares on the date of the Announcement** *(Note 3)*	**No. of trading days in each month**
2009				
June	223,357,909	0.75	0.63	22
July	218,725,364	0.74	0.62	22
August	201,142,381	0.68	0.57	21
September	138,968,818	0.47	0.39	22
October	65,229,600	0.22	0.19	20
November	217,914,493	0.73	0.62	21
December *(Note 1)*	333,093,778	1.12	0.95	18
2010				
January	267,417,300	0.90	0.76	20
February	202,258,019	0.68	0.57	18
March	350,182,870	1.18	0.99	23
April	526,501,409	1.78	1.49	19
May	241,694,250	0.82	0.69	20
June (up to and including the Last Trading Day)	147,522,000	0.50	0.42	1

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. Trading in the Shares was suspended from 4 December 2009 to 9 December 2009 (both days inclusive).

2. Based on 29,650,101,432 Shares held in public hands on the date of the Announcement.

3. Based on 35,242,927,432 Shares in issue on the date of the Announcement.

The above table illustrates that the average daily trading volume of Shares per month was generally thin during the Review Period. Save and except for April 2010, the volume of Shares traded was below 1% of the total number of issued Shares held by the public on the date of the Announcement. Since the Shares were rather illiquid in the open market, we concur with the Directors that the discounts as represented by the Conversion Price are justifiable to attract potential Placee(s) for the Second Tranche Convertible Notes.

Comparison with issues of convertible notes/bonds

As part of our analysis, we have identified those issue and subscription of convertible notes/bonds exercises from 9 March 2010 up to the date of the Announcement (being three months immediately before and up to the date of the Announcement) as announced by companies listed on the Stock Exchange (the "**Comparables**"). To the best of our knowledge and as far as we are aware of, we found 15 transactions which met the said criteria. We consider that using the recent three-month period as the selection time frame for the Comparables is appropriate to reflect the most updated stock market condition in view of the volatility of the Hong Kong stock market and we also consider such sample size to be sufficient. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables and thus the Comparables are only used to provide a general reference for the recent common market practice of Hong Kong listed companies in issue and subscription of convertible notes/bonds exercises. Summarised below is our relevant finding:

Date of announcement	Company name	Stock code	Term	Annual interest rate	Premium/(Discount) of the conversion price over/(to) closing price per share on the last trading day prior to announcement/the date of agreement in relation to the respective issue of convertible notes/bonds
			Years	*%*	*%*
9 March 2010	China Nonferrous Metals Company Limited	8306	2	1	1.79
15 March 2010	Dynamic Energy Holdings Limited	578	3	Nil	(71.43)
18 March 2010	China Green (Holdings) Limited	904	Approximately 3	3	20.15
26 March 2010	Fufeng Group Limited	546	Approximately 5	4.5	20.00

Date of announcement	Company name	Stock code	Term	Annual interest rate	Premium/(Discount) of the conversion price over/(to) closing price per share on the last trading day prior to announcement/the date of agreement in relation to the respective issue of convertible notes/bonds
			Years	*%*	*%*
1 April 2010	Artini China Company Limited	789	1	Nil	Information not available
8 April 2010	China HealthCare Holdings Limited	673	1	Nil	(19.98)
12 April 2010	Coolpoint Energy Limited	8032	3	12.0	(47.86)
16 April 2010	Time Infrastructure Holdings Limited	686	Approximately 1.5	3.0	(19.59)
26 April 2010	Sun Hung Kai & Co. Limited	86	3	2.0	(24.24)
27 April 2010	Water Oasis Group Limited	1161	3	5.0	13.30
29 April 2010	Mongolia Energy Corporation Limited	276	3	3.5	8.99
14 May 2010	Tianyi Fruit Holdings Limited	756	2	Nil	(4.76)
27 May 2010	Qin Jia Yuan Media Services Company Limited	2366	5	Nil	10.70
27 May 2010	Qin Jia Yuan Media Services Company Limited	2366	5	7.0	10.70
3 June 2010	Info Communication Holdings Limited	8082	Approximately 5	1.0	(60.53)
Minimum				Nil	(71.43)
Maximum				12.0	20.15
Average				2.8	(11.63)
9 June 2010	**The Company**	**1041**	**Approximately 2.5**	**Nil**	**(50.00)**

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

(a) The Conversion Price

We noted from the above table that the conversion prices of the Comparables ranged from a discount of approximately 71.43% to a premium of approximately 20.15% with an average of a discount of approximately 11.63% to/over the respective closing prices of their shares on the last trading day prior to the release of announcements/ the date of agreements in relation to the respective issue of convertible notes/bonds. As such, the Conversion Price, which represents a discount of 50.00% to the closing price of the Shares on the Last Trading Day, falls within the said market range. We are thus of the opinion that the Conversion Price is in line with the general market practice.

Given the above analysis and taking into consideration (i) the persistent downward moving trend of the Share prices since December 2009; (ii) the discount of the conversion price to the market price of the Shares has been reduced from approximately 74.36% based on Share price as quoted on the Stock Exchange on the date of the Placing Agreement to approximately 50% based on Share price as quoted on the Stock Exchange on the Last Trading Day; (iii) the rather low trading liquidity of the Shares during the Review Period; and (iv) the reasons for the Second Placing, we consider that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

(b) Annual interest rate

As presented by the above table, the Comparables carried an annual interest rate of 0% to 12% with an average of approximately 2.8%. The interest-free Second Tranche Convertible Notes are hence fair and reasonable so far as the Independent Shareholders are concerned.

Other terms of the Second Tranche Convertible Notes

Lastly, we have also reviewed the other major terms of the Second Tranche Convertible Notes and are not aware of any terms which are unusual. We are therefore of the opinion that the terms of the Second Tranche Convertible Notes are fair and reasonable so far as the Independent Shareholders are concerned.

Dilution effect on the shareholding interests of the existing public Shareholders

The table below demonstrates the possible shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) upon full conversion of the Second Tranche Convertible Notes:

Name of Shareholder	As at the Latest Practicable Date		Upon full conversion of the Second Tranche Convertible Notes	
	No. of Shares	*Approximate % of issued Shares*	*No. of Shares*	*Approximate % of issued Shares*
Zhang Xi *(Note)*	1,592,826,000	4.52	1,592,826,000	2.27
Wong Hip Keung	4,000,000,000	11.35	4,000,000,000	5.69
Holders of the Second Tranche Convertible Notes	–	–	35,000,000,000	49.83
Existing public Shareholders	29,650,101,432	84.13	29,650,101,432	42.21
Total	**35,242,927,432**	**100**	**70,242,927,432**	**100**

Note: Mr. Zhang Xi, the Vendor, is an executive Director and the chairman of the Company.

With reference to the above table, the shareholding interests of the existing public Shareholders in the Company would be diluted by approximately 41.92 percent point upon full conversion of the Second Tranche Convertible Notes. Taking into account (i) the reasons for the Second Placing and that the issue of the Second Tranche Convertible Notes is a readily available financing method for the Group to provide immediate funding to the Company; (ii) the possible benefits of the Acquisition to the Group; and (iii) the terms of the Second Tranche Convertible Notes being fair and reasonable, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

Financial effects of the Second Placing

Effect on net asset value/liabilities

As extracted from the Annual Report, the audited consolidated net liabilities of the Group were approximately US$59.51 million as at 31 December 2009. As confirmed by the Directors, the Second Placing would not have material impact on the net liabilities of the Group. Nevertheless, the Directors are of the view that the Group's net liabilities may decrease upon conversion of the Second Tranche Convertible Notes into the Conversion Shares.

Effect on gearing

As confirmed by the Directors, the Group's gearing ratio (calculated on the basis of (i) warrants, convertible notes, bank and other borrowings; and (ii) total assets) was approximately 57.1% as at 31 December 2009. The Directors expect that the gearing ratio of the Group would be decreased upon completion of the Second Placing. Moreover, the Second Tranche Convertible Notes, upon conversion, would allow the Group to enlarge its capital base and therefore improving its gearing ratio.

Effect on working capital

As advised by the Directors, completion of the Second Placing would lead to an immediate increase of the working capital of the Group before the utilisation of the proceeds deriving therefrom.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Second Placing.

RECOMMENDATION ON THE SECOND PLACING

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Second Tranche Convertible Notes are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Second Placing is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the issue of the Second Tranche Convertible Notes and the grant of the Specific Mandate and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

FINANCIAL SUMMARY

Set out below are the audited consolidated statement of comprehensive income and audited consolidated statement of financial position of the Group extracted from the relevant annual reports of the Company. The latest published audited financial statements of the Group together with the notes on the annual accounts of the Group for the financial year ended 31 December 2009 are set out on pages 31 to 111 of the annual report of the Company for the year ended 31 December 2009, which was published by the Company on 20 April 2010 and is available for viewing at the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.fulbond.com).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	2009	**2008**	**2007**
	US$'000	*US$'000*	*US$'000*
		(Restated)	
Continuing operations			
Turnover	15,605	21,883	24,016
Cost of sales	(13,773)	(17,577)	(19,299)
Gross profit	1,832	4,306	4,717
Other income	835	1,436	1,694
Other gains and losses	(42,026)	3,094	
Selling and distribution costs	(1,283)	(1,961)	(3,952)
Administrative expenses	(4,208)	(4,311)	(4,776)
Other operating expenses	–	(524)	(5,016)
Impairment loss recognised in respect of property, plant and equipment and prepaid lease payments	–	(10,619)	(172)
Gain on disposal of associates	–	–	559
Share of results of associates	–	–	(319)
Finance costs	(6,803)	(3,255)	(915)
Loss before taxation	(51,653)	(11,834)	(8,180)
Taxation	(84)	(273)	(586)
Loss for the year from continuing operations	(51,737)	(12,107)	(8,766)
Discontinued operation			
Loss for the year from discontinued operation	(2,371)	(20,147)	–
Loss for the year	(54,108)	(32,254)	(8,766)

	2009 *US$'000*	2008 *US$'000* **(Restated)**	2007 *US$'000*
Other comprehensive income			
Exchange differences arising on translation to presentation currency	(557)	581	867
Exchange differences released upon disposal of a subsidiary	–	292	–
Reserves released upon disposal of associates	–	–	46
Other comprehensive income for the year	(557)	873	913
Total comprehensive income for the year	(54,665)	(31,381)	(7,863)
Loss for the year attributable to:			
Owners of the Company	(53,877)	(29,174)	(7,455)
Minority interests	(231)	(3,080)	(1,311)
	(54,108)	(32,254)	(8,766)
Total comprehensive income attributable to:			
Owners of the Company	(54,434)	(29,104)	(6,824)
Minority interests	(231)	(2,277)	(1,029)
	(54,665)	(31,381)	(7,853)
Loss per share			
From continuing and discontinued operations			
– Basic	US(0.41) cent	US(0.29) cent	US(0.08) cent
– Diluted	US(0.41) cent	US(0.29) cent	US(0.08) cent
From continuing operations			
– Basic	US(0.40) cent	US(0.09) cent	US(0.08) cent
– Diluted	US(0.40) cent	US(0.11) cent	US(0.08) cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December

	2009 *US$'000*	2008 *US$'000*	2007 *US$'000*
Non-current assets			
Property, plant and equipment	857	11,133	12,967
Intangible assets	–	2,539	–
Prepaid lease payments	636	3,046	810
Other advances	–	439	–
Goodwill	–	–	–
Interests in associates	–	–	–
Other investments	–	–	–
Club debenture	–	–	–
Deferred tax asset	-	350	–
	1,493	17,507	13,777
Current assets			
Inventories	5,876	16,685	6,653
Trade and other receivables	2,982	18,263	2,370
Deposits and prepayments	1,585	3,705	1,585
Prepaid lease payments	–	70	63
Amount due from a director of a subsidiary	–	951	–
Bank balances and cash	29,183	8,882	6,888
	39,626	48,556	17,559
Assets classified as held for sale	39,071	–	–
	78,697	48,556	17,559
Current liabilities			
Trade and other payables	27,631	14,170	8,907
Amounts due to associates	76	76	98
Amount due to a shareholder	–	162	702
Amount due to former ultimate holding company	–	–	560
Amounts due to directors of subsidiaries	473	189	–
Taxation payable	319	775	242
Obligation under finance lease	10	–	–
Warrants	10,430	15	–
Convertible notes	26,727	39,054	–
Bank and other borrowings – amount due within one year	10,364	22,043	9,769
	76,030	76,484	20,278
Liabilities associated with assets classified as held for sale	17,278	–	–
	93,308	76,484	20,278
Net current liabilities	(14,611)	(27,928)	(2,719)
Total assets less current liabilities	(13,118)	(10,421)	11,058

	2009	2008	2007
	US$'000	*US$'000*	*US$'000*
Non-current liabilities			
Convertible notes	46,373	–	–
Bank and other borrowings – amount due after one year	–	455	1,075
Deferred tax liability	–	803	–
Obligation under finance lease	20	–	–
	46,393	1,258	1,075
	(59,511)	(11,679)	9,983
Capital and reserves			
Share capital	14,013	12,954	9,197
Reserves	(74,005)	(25,831)	(2,689)
Equity attributable to owners of the Company	(59,992)	(12,877)	6,508
Minority interests	481	1,198	3,475
	(59,511)	(11,679)	9,983

The following is the text of accountants' report on the Target Company, prepared for the purpose of inclusion in this circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F., One Pacific Place
88 Queensway
Hong Kong

28 June 2010

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information (the "Financial Information") relating to Allywing Investments Limited (the "Target Company") for the period from 12 April 2007 (date of incorporation) to 31 December 2007 and each of the two years ended 31 December 2009 (the "Relevant Periods"), for the inclusion in a circular dated 28 June 2010 (the "Circular") issued by Fulbond Holdings Limited ("FHL") in connection with its proposed acquisition of the entire issued share capital of and the assignment of the shareholder's loan of the Target Company.

The Target Company was incorporated in the British Virgin Islands (the "BVI") as a limited liability company on 12 April 2007 and remained inactive since incorporation.

The Target Company adopted 31 December as the financial year end date. No statutory financial statements have been prepared for the Target Company during the Relevant Periods as the Target Company was incorporated in a jurisdiction where there was no statutory audit requirement.

For the purpose of the preparation of this report, the sole director of the Target Company has prepared the management accounts for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management Accounts"). We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of the Target Company for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information for the Relevant Periods set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

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

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2007, 31 December 2008 and 31 December 2009 and of the results and cash flows of the Target Company for the Relevant Periods.

A. STATEMENTS OF COMPREHENSIVE INCOME

	NOTE	**12 April 2007 to 31 December 2007**	**Year ended 31 December 2008**	**2009**
		US$	*US$*	*US$*
Interest income		5	–	2
Administrative expenses		(299)	(124)	(218)
Loss and total comprehensive expense for the period/year attributable to owner of the Target Company	*7*	(294)	(124)	(216)

B. STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
	NOTES	**2007**	**2008**	**2009**
		US$	*US$*	*US$*
Current assets				
Bank balances	*8*	996	322	1,277,922
Current liability				
Amount due to a shareholder	*9*	(1,289)	(739)	(1,278,555)
		(293)	(417)	(633)
Capital and reserves				
Share capital	*10*	1	1	1
Reserves		(294)	(418)	(634)
		(293)	(417)	(633)

C. STATEMENTS OF CHANGES IN EQUITY

	Share capital	**Accumulated losses**	**Total**
	US$	*US$*	*US$*
Issue of share upon incorporation	1	–	1
Loss and total comprehensive expense for the period	–	(294)	(294)
At 31 December 2007 and 1 January 2008	1	(294)	(293)
Loss and total comprehensive expense for the year	–	(124)	(124)
At 31 December 2008 and 1 January 2009	1	(418)	(417)
Loss and total comprehensive expense for the year	–	(216)	(216)
At 31 December 2009	1	(634)	(633)

D. STATEMENTS OF CASH FLOWS

	12 April 2007 to 31 December 2007	Year ended 31 December	
	2007	2008	2009
	US$	*US$*	*US$*
Operating activities			
Loss for the period/year	(294)	(124)	(216)
Adjustment for:			
Interest income	(5)	–	(2)
Net cash used in operating activities	(299)	(124)	(218)
Cash from investing activity			
Interest received	5	–	2
Financing activities			
Proceed from issue of share	1	–	–
Advance from (repayment to) a shareholder	1,289	(550)	1,277,816
Net cash from (used in) financing activities	1,290	(550)	1,277,816
Net increase (decrease) in cash and cash equivalents	996	(674)	1,277,600
Cash and cash equivalents at the beginning of the period/year	–	996	322
Cash and cash equivalents at the end of the period/year, representing bank balances	996	322	1,277,922

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Target Company is a limited liability company incorporated in the BVI. During the Relevant Periods, the Target Company did not have immediate and ultimate holding company. The Target Company is inactive during the Relevant Periods.

The Financial Information is presented in United States dollar ("US$"), while the functional currency of the Target Company is Hong Kong dollars ("HK$"). The sole director of the Target Company considers this presentation currency is more useful for its potential investors.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

In preparing the Underlying Management Accounts, the sole director of the Target Company has given consideration to the future liquidity of the Target Company in light of the fact that the Target Company incurred a loss of US$216 during the year ended 31 December 2009, and as of that date, the Target Company had net liabilities of US$633. The sole director of the Target Company has prepared the Underlying Management Accounts on a going concern basis because the sole shareholder of the Target Company has agreed to provide adequate funds to enable the Target Company to meet in full its financial obligations as they fall due for the foreseeable future. In addition, upon completion of the restructuring referred to in Section F, in advance of the proposed acquisition of the entire issued share capital of and assignment of the shareholder's loan of the Target Company by/to FHL, the sole director of the Target Company believes that the financial position of the Target Company will be sufficiently improved to enable it to meet its financial obligations as they fall due for the foreseeable future.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for the Target Company's financial period beginning on 1 January 2009. For the purposes of preparing and presenting the Financial Information for the Relevant Periods, the Target Company has adopted all these new HKFRSs consistently throughout the Relevant Periods.

The Target Company has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[3]
HKAS 24 (Revised)	Related party disclosures[7]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[5]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[4]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[6]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[4]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[8]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[7]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009.

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
[4] Effective for annual periods beginning on or after 1 January 2010.
[5] Effective for annual periods beginning on or after 1 February 2010.
[6] Effective for annual periods beginning on or after 1 July 2010.
[7] Effective for annual periods beginning on or after 1 January 2011.
[8] Effective for annual periods beginning on or after 1 January 2013.

The sole director of the Target Company anticipates that the application of these new and revised Standards, Amendments or Interpretations will have no material impact on the Financial Information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

For the purposes of presenting the Financial Information, the assets and liabilities of the Target Company are translated from its functional currency (i.e. HK$) into the presentation currency of the Target Company (i.e. US$) at the rate of exchange prevailing at the end of each reporting period, and its income and expenses are translated at the average exchange rates for the period/year, unless exchange rates fluctuated significantly during that period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Target Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Target Company's financial assets represent loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Target Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Target Company after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including amount due to a shareholder are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Target Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

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

5. CAPITAL RISK MANAGEMENT

The sole director of the Target Company manages the capital to ensure that the Target Company will be able to continue as a going concern while maximising the return to its shareholder through the optimisation of the debt and equity balance. The Target Company's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Target Company consists of net debts, which include amount due to a shareholder, net of bank balances as disclosed in respective notes and equity of the Target Company, comprising share capital and reserves.

The sole director of the Target Company reviews the capital structure on an annually basis. As part of this review, the sole director considers the cost of capital and will balance its overall capital structure through raising new capital as well as the issue of new debt.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December		
	2007	**2008**	**2009**
	US$	*US$*	*US$*
Financial assets			
Loan and receivables			
– bank balances	996	322	1,277,922
Financial liabilities			
Amortised cost			
– amount due to a shareholder	1,289	739	1,278,555

Financial risk management objectives and policies

The Target Company's major financial instruments include amount due to a shareholder and bank balances. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The sole director manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Target Company did not have any foreign currency transactions during the Relevant Periods which expose the Target Company to foreign currency risks.

No sensitivity analysis on foreign currency exposure is presented as the Target Company did not have any foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period.

Interest rate risk

The sole director of the Target Company considers the Target Company's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity period.

Credit risk

The Target Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statements of financial position.

The Target Company's credit risk on bank balances is limited and there is no significant concentration of credit risk because all bank deposits and bank balances are deposited in state-owned banks with good credit ratings.

Liquidity risk

The Target Company had net liabilities of US$633 as at 31 December 2009. As outlined in note 2 to Section E, liquidity risk can be mitigated because the sole shareholder of the Target Company has agreed to provide funds to enable the Target Company to meet in full its financial obligations as they fall due in the foreseeable future.

The following table details the Target Company's remaining contractual maturity for its financial liabilities and has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Company can be required to pay. The table includes only principal cash flows.

	Weighted average interest rate	On demand	Total undiscounted cash flows	Carrying amount
		US$	*US$*	*US$*
As at 31 December 2007				
Amount due to a shareholder	N/A	1,289	1,289	1,289
As at 31 December 2008				
Amount due to a shareholder	N/A	739	739	739
As at 31 December 2009				
Amount due to a shareholder	N/A	1,278,555	1,278,555	1,278,555

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The sole director considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

7. LOSS FOR THE PERIOD/YEAR

No director's emoluments have been paid or payable to the sole director for the Relevant Periods.

8. BANK BALANCES

Bank balances comprises short-term bank deposits with original maturity of less than three months and are denominated in Hong Kong dollars.

	As at 31 December		
	2007	**2008**	**2009**
	%	*%*	*%*
Range of interest rates of the bank deposits per annum	0.01% to 0.73%	0.01% to 0.64%	0.01% to 0.59%

9. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder represents amount due to Mr. Zhang Xi. The amount is unsecured, interest-free and repayable on demand and is denominated in HK$.

10. SHARE CAPITAL

	Number of share(s)	Amount *US$*
Ordinary shares of US$1 each:		
Authorised:		
At 12 April 2007, 31 December 2007, 31 December 2008 and 31 December 2009	50,000	50,000
Issued and fully paid:		
At 12 April 2007 (date of incorporation), 31 December 2007, 31 December 2008 and 31 December 2009	1	1

The Target Company was incorporated on 12 April 2007 with an authorised share capital of US$50,000. At the date of incorporation, 1 ordinary share of US$1 each was issued for cash at par, to the subscriber to provide the initial capital of the Target Company.

F. EVENT AFTER THE REPORTING PERIOD

Subsequent to 31 December 2009, the Target Company had the following subsequent events:

(a) In preparation for the proposed acquisition of the Target Company by FHL (the "Proposed Acquisition"), on 28 May 2010, the Target Company has entered into an agreement with 成都宏邦投資有限公司 (Chengdu Hongbang Investments Limited) ("Chengdu Hongbang"), an independent third party, to acquire 60% equity interest in 西安遠聲實業有限公司 (Xian Yuansheng Enterprises Limited) ("Xian Yuansheng") (the "Capital Increase Agreement"). Pursuant to the Capital Increase Agreement, the Target Company has agreed to make a capital injection of RMB30,000,000 (the "Capital Injection") to Xian Yuansheng. Upon completion of the Capital Injection, the registered capital of Xian Yuansheng shall increase from RMB20,000,000 to RMB50,000,000 and the Target Company and Chengdu Hongbang will own 60% and 40% equity interest of Xian Yuansheng, respectively (the Target Company together with Xian Yuansheng collectively referred to as the "Target Group").

(b) On 28 May 2010, Mr. Zhang Xi and the shareholder of Chengdu Hongbang entered into an agreement (the "Ancillary Agreement"), pursuant to which Mr. Zhang Xi has agreed to pay the owner of Chengdu Hongbang a sum of RMB254,848,920 as the consideration in relation to taking control and obtain 60% equity interest of Xian Yuansheng from Chengdu Hongbang (as mentioned in note(a)) to cover the shortfall between the value of the underlying asset of Xian Yuansheng, which is the leasehold land, and the amount of the capital injection payable by the Target Company under the Capital Increase Agreement.

(c) On 1 June 2010, a wholly-owned subsidiary of FHL (the "Purchaser") has entered into an agreement with Mr. Zhang Xi to acquire the entire interest in the Target Company (the "Acquisition Agreement"). Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire the entire issued share capital of the Target Company and the shareholder's loan (disclosed as amount due to a shareholder in the statement of financial position) owing to Mr. Zhang Xi at the consideration of RMB284,848,920 (approximately US$41,693,000). The major terms and precedent conditions of the Acquisition Agreement are set out in FHL's announcement dated 9 June 2010, which mainly includes:

(i) the First Stage Capital Increase (as defined in the Acquisition Agreement) shall have been duly and properly completed and shall have been fully paid and approval of the First Stage Capital Increase by the relevant governmental authority in the PRC shall have been obtained;

(ii) the Capital Injection under the Capital Increase Agreement shall have been duly and properly completed and shall have been fully paid to result in the final structure of the Target Group and approval of the Capital Injection by the relevant governmental authority in the PRC shall have been obtained;

(iii) the land use and development rights of the land held by Xian Yuansheng shall remain valid and binding and not being revoked and not being varied, amended or modified unless with the prior written consent of the Purchaser;

(iv) the qualification certificate for real estate development enterprise (房地產開發企業資質證書) held by Xian Yuansheng shall remain valid and binding and not being revoked and not being varied, amended or modified unless with the prior written consent of the Purchaser;

(v) the provision of evidence by Mr. Zhang Xi to the Purchaser to the absolute satisfaction of the Purchaser that (i) the land charge and the relevant guarantees given by Xian Yuansheng in relation to the loans raised by related companies of Xian Yuansheng have been fully and completely discharged and released; and (ii) save and except for the shareholder's loan of the Target Company, all loans, debts, liabilities or other financial facilities outstanding or available to the Target Group (including the Target Company and Xian Yuansheng) shall have been fully settled and the Target Group shall have no liabilities on completion of the Proposed Acquisition;

(vi) PRC legal opinions from the PRC legal advisers acceptable to the Purchaser (in forms and contents satisfactory to the Purchaser in its absolute discretion) on, inter alia: (i) the due incorporation, shareholders and scope of business activities of the relevant member of the Target Group in the PRC; (ii) that the Target Company has become the legal and beneficial owner of the 60% of the equity interest in Xian Yuansheng free from any encumbrance; (iii) the relevant licences and consent (or renewal thereof, as the case may be) in relation to the land and/or the development of the land of Xian Yuansheng, including but not limited to the land use right certificates of the land and the qualification certificate for real estate development enterprise, having been validly issued by the proper PRC government authorities; (iv) the renewal of the deadlines for (a) commencement of construction work on the land before the prescribed commencement date (i.e. 31 December 2008) and (b) completion of the construction work on the land before the prescribed completion date (i.e. 31 December 2010) pursuant to the land contracts; (v) the land not being treated as idle land and (vi) such other matters as may be required by the Purchaser, shall have been delivered to the Purchaser to its absolute satisfaction.

G. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company of subsequent to 31 December 2009.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of accountants' report on Xian Yuansheng, prepared for the purpose of inclusion in this circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu.

Deloitte.
德勤

德勤 · 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F., One Pacific Place
88 Queensway
Hong Kong

28 June 2010

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information (the "Financial Information") relating to Xian Yuansheng Enterprises Limited 西安遠聲實業有限公司 ("Xian Yuansheng") for each of the three years ended 31 December 2009 (the "Relevant Periods"), for the inclusion in a circular dated 28 June 2010 (the "Circular") issued by Fulbond Holdings Limited ("FHL") in connection with its proposed acquisition of the entire issued share capital of and the assignment of the shareholder's loan of Allywing Investments Limited (the "Proposed Acquisition") .

Xian Yuansheng was established in the People's Republic of China (the "PRC") as a limited liability company on 22 November 1996 and is engaged in the property development business.

Xian Yuansheng adopted 31 December as the financial year end date. No statutory financial statements have been prepared for Xian Yuansheng during the Relevant Periods.

For the purpose of the preparation of this report, the directors of Xian Yuansheng have prepared the management accounts for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management Accounts"). We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of Xian Yuansheng for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information for the Relevant Periods set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

The directors of Xian Yuansheng are responsible for preparing the Underlying Management Accounts who approved their issue. The directors of FHL are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Financial Information and to report our opinion to you.

As disclosed in note 23 to Section E, during the year ended 31 December 2009, Xian Yuansheng has provided financial guarantees for bank loans raised by companies in which a shareholder and director of Xian Yuansheng has controlling equity interests. Xian Yuansheng has not accounted for these financial guarantee contracts in the Financial Information in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement" issued by the HKICPA, which requires financial guarantees to be recognised initially at their fair values and subsequently measured at higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or the amount initially recognised less when appropriate cumulative amortisation in accordance with HKAS 18 "Revenue". In the absence of sufficient information regarding the fair values of these financial guarantee contracts, it is not practicable for us to quantify the effects of the departure from this requirement and make the necessary adjustment to the Underlying Management Accounts in relation to the statement of financial position as at 31 December 2009 and the statement of comprehensive income for the year then ended of Xian Yuansheng.

In our opinion, except for the effects on the Financial Information of the matter described above, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Xian Yuansheng as at 31 December 2007, 31 December 2008 and 31 December 2009 and of the results and cash flows of Xian Yuansheng for the Relevant Periods.

Without qualifying our opinion, we draw attention to note 2 to Section E of the Financial Information which indicates Xian Yuansheng incurred a loss of US$802,718 during the year ended 31 December 2009, and as of that date, Xian Yuansheng had net current liabilities and net liabilities of US$1,922,217. In addition, as explained in note 2 to Section E of the Financial Information, the going concern of Xian Yuansheng is dependent upon the successful completion of the Financial Reorganisation as described in Section F of the Financial Information. These conditions, along with other matters set forth in note 2 to Section E of the Financial Information, indicates the existence of a material uncertainty which may cast significant doubt about Xian Yuansheng's ability to continue as a going concern.

A. STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
	NOTES	**2007**	**2008**	**2009**
		US$	*US$*	*US$*
Interest income		683	439	13
Administrative expenses		(7,767)	(23,326)	(64,102)
Impairment loss recognised in respect of other receivables		–	(176,236)	–
Impairment loss recognised in respect of plant and equipment		–	(119,009)	–
Finance costs	*8*	(65,834)	(96,234)	(738,629)
Loss for the year attributable to owners of Xian Yuansheng	*9*	(72,918)	(414,366)	(802,718)
Other comprehensive income for the year:				
Exchange differences arising on translation to presentation currency		(48,661)	(44,943)	–
Total comprehensive expense for the year attributable to owners of Xian Yuansheng		(121,579)	(459,309)	(802,718)

B. STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December 2007	2008	2009
		US$	US$	US$
Non-current asset				
Plant and equipment	12	–	–	–
Amounts due from related companies	14	1,714,532	1,689,718	–
		1,714,532	1,689,718	–
Current assets				
Properties under development	13	–	11,561,194	11,561,194
Other receivables and prepayments		208,170	50,535	50,535
Amounts due from related companies	14	1,536,235	24,814	1,689,718
Amount due from a shareholder	15	29,535	31,156	31,156
Bank balances and cash	16	563	1,023	1,014
		1,774,503	11,668,722	13,333,617
Current liabilities				
Other payables		–	11,349	79,630
Amounts due to related companies	17	3,469,330	13,749,377	14,458,991
Bank borrowings	18	679,895	717,213	717,213
		4,149,225	14,477,939	15,255,834
Net current liabilities		(2,374,722)	(2,809,217)	(1,922,217)
		(660,190)	(1,119,499)	(1,922,217)
Capital and reserves				
Paid-in capital	19	602,410	602,410	602,410
Reserves		(1,262,600)	(1,721,909)	(2,524,627)
		(660,190)	(1,119,499)	(1,922,217)

C. STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *US$*	Exchange translation reserve *US$*	Accumulated losses *US$*	Total *US$*
At 1 January 2007	602,410	11,570	(1,152,591)	(538,611)
Exchange differences arising on translation to presentation currency	–	(48,661)	–	(48,661)
Loss for the year	–	–	(72,918)	(72,918)
Total comprehensive expense for the year	–	(48,661)	(72,918)	(121,579)
At 31 December 2007 and 1 January 2008	602,410	(37,091)	(1,225,509)	(660,190)
Exchange differences arising on translation to presentation currency	–	(44,943)	–	(44,943)
Loss for the year	–	–	(414,366)	(414,366)
Total comprehensive expense for the year	–	(44,943)	(414,366)	(459,309)
At 31 December 2008 and 1 January 2009	602,410	(82,034)	(1,639,875)	(1,119,499)
Loss for the year and total comprehensive expense for the year	–	–	(802,718)	(802,718)
At 31 December 2009	602,410	(82,034)	(2,442,593)	(1,922,217)

D. STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2007	2008	2009
	US$	*US$*	*US$*
Operating activities			
Loss before taxation	(72,918)	(414,366)	(802,718)
Adjustments for:			
Interest income	(683)	(439)	(13)
Interest expense	65,834	96,234	738,629
Impairment loss recognised in respect of other receivables	–	176,236	–
Impairment loss recognised in respect of plant and equipment	–	119,009	–
Depreciation of plant and equipment	–	1,336	–
Operating cash flows before movements in working capital	(7,767)	(21,990)	(64,102)
Increase in other receivables	(201,766)	(176,235)	–
Increase (decrease) in other payables	–	11,349	(11,074)
Net cash used in operating activities	(209,533)	(186,876)	(75,176)
Investing activities			
Interest received	683	439	13
Purchase of plant and equipment	–	(40,161)	–
Advances to related companies	(758,204)	(42,447)	–
Repayments from related companies	32,896	1,757,113	24,814
Net cash (used in) from investing activities	(724,625)	1,674,944	24,827
Financing activities			
Interest paid	(65,834)	(96,234)	(65,867)
New bank borrowings raised	1,359,790	717,213	717,213
Repayments of bank borrowings	(679,895)	(679,895)	(717,213)
Advances from related companies	306,417	–	137,701
Repayments to related companies	–	(1,428,723)	(21,494)
Net cash from (used in) financing activities	920,478	(1,487,639)	50,340
Net (decrease) increase in cash and cash equivalents	(13,680)	429	(9)
Cash and cash equivalents at the beginning of the year	13,131	563	1,023
Effect of foreign exchange rate changes of cash and cash equivalents	1,112	31	–
Cash and cash equivalents at the end of the year, representing bank balances and cash	563	1,023	1,014

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Xian Yuansheng is a limited liability company established in the PRC. During the Relevant Periods, Xian Yuansheng did not have immediate and ultimate holding company. Xian Yuansheng is engaged in property development business.

The Financial Information is presented in United States dollar ("US$"), while the functional currency of Xian Yuansheng is Renminbi ("RMB"). The directors of Xian Yuansheng consider this presentation currency is more useful for its current and potential investors.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

In preparing the Underlying Management Accounts, the directors of Xian Yuansheng have given consideration to the future liquidity of Xian Yuansheng in light of the fact that Xian Yuansheng incurred a loss of US$802,718 during the year ended 31 December 2009, and as of that date, Xian Yuansheng had net current liabilities and net liabilities of US$1,922,217. In addition, in order to fulfil the conditions of the Proposed Acquisition as described in note (c) to Section F, subsequent to 31 December 2009, Xian Yuansheng has initiated a financial reorganisation plan involving the First Stage Capital Increase, Second Stage Capital Increase (as defined in Section F), settlement of all liabilities and contingent liabilities including related party balances and bank loans of Xian Yuansheng through capital injection by the owners and discharge and release of all land charges and guarantees given by Xian Yuansheng (the "Financial Reorganisation"). After the Financial Reorganisation, the registered capital of Xian Yuansheng will be increased to RMB50,000,000 and all the liabilities of Xian Yuansheng will be settled. However, as at the date of this report, only the First Stage Capital Increase has been completed and certain guarantees given by Xian Yuansheng have been released.

Provided that the Financial Reorganisation is successfully completed, the directors of Xian Yuansheng are satisfied that Xian Yuansheng will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the directors of Xian Yuansheng have prepared the Underlying Management Accounts on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for Xian Yuansheng's financial period beginning on 1 January 2009. For the purposes of preparing and presenting the Financial Information for the Relevant Periods, Xian Yuansheng has adopted all these new HKFRSs consistently throughout the Relevant Periods.

Xian Yuansheng has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[3]
HKAS 24 (Revised)	Related party disclosures[7]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[5]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[4]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[6]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[4]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[8]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[7]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009.

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

4 Effective for annual periods beginning on or after 1 January 2010.

5 Effective for annual periods beginning on or after 1 February 2010.

6 Effective for annual periods beginning on or after 1 July 2010.

7 Effective for annual periods beginning on or after 1 January 2011.

8 Effective for annual periods beginning on or after 1 January 2013.

The directors of Xian Yuansheng anticipate that the application of these new and revised Standards, Amendments or Interpretations will have no material impact on the Financial Information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and prepared in accordance with HKFRSs issued by the HKICPA except that the financial guarantee contracts provided by Xian Yuansheng has not been recognised in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement". In addition, the Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of plant and equipment, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

Properties under development

Properties under development for sale in the ordinary course of business is included in current assets and stated at the lower of cost and net realisable value. Costs relating to the development of the properties include land cost, construction cost and other direct development expenditure.

Impairment

At the end of each reporting period, Xian Yuansheng reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

For the purposes of presenting the Financial Information, the assets and liabilities of Xian Yuansheng are translated from its functional currency (i.e. RMB) into the presentation currency of Xian Yuansheng (i.e. US$) at the rate of exchange prevailing at the end of each reporting period, and its income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange translation reserve).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Retirement benefit costs

Payments to government-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Xian Yuansheng's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when Xian Yuansheng becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Xian Yuansheng's financial assets represent loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, amounts due from related companies, amount due from a shareholder and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by Xian Yuansheng are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of Xian Yuansheng after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including other payables, amounts due to related companies and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Xian Yuansheng has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

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

5. CAPITAL RISK MANAGEMENT

The directors of Xian Yuansheng manages the capital to ensure that Xian Yuansheng will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Xian Yuansheng's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Xian Yuansheng consists of net debts, which include bank borrowings and amounts due to related companies, net of bank balances and cash as disclosed in respective notes and equity of Xian Yuansheng, comprising paid-in capital and reserves.

The directors of Xian Yuansheng review the capital structure on an annually basis. As part of this review, the directors consider the cost of capital and will balance its overall capital structure through raising new capital as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December		
	2007	**2008**	**2009**
	US$	*US$*	*US$*
Financial assets			
Loan and receivables			
– other receivables	47,906	50,535	50,535
– amounts due from related companies	3,250,767	1,714,532	1,689,718
– amount due from a shareholder	29,535	31,156	31,156
– bank balances and cash	563	1,023	1,014
	3,328,771	1,797,246	1,772,423
Financial liabilities			
Amortised cost			
– other payables	–	11,349	79,630
– amounts due to related companies	3,469,330	13,749,377	14,458,991
– bank borrowings	679,895	717,213	717,213
	4,149,225	14,477,939	15,255,834

Financial risk management objectives and policies

Xian Yuansheng's major financial instruments include other receivables, amounts due from (to) related companies, amount due from a shareholder, bank balances and cash, other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Xian Yuansheng did not have any foreign currency sales and purchases during the Relevant Periods which expose Xian Yuansheng to foreign currency risk. In addition, Xian Yuansheng does not have any foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period.

Interest rate risk

Xian Yuansheng is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and certain amounts included in amounts due to related companies (details are included in respective notes). Xian Yuansheng currently does not have an interest rate hedging policy, however, the management continuously monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The short-term bank deposits is subject to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the exposure of the short-term bank deposits to interest rate risk is not significant as the balance of interest bearing bank balances are not significant and short term in nature.

Xian Yuansheng's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. It is Xian Yuansheng's policy to keep its borrowings at fixed rate of interests so as to minimise the cash flow interest rate risk.

Credit risk

Xian Yuansheng's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statements of financial position. Xian Yuansheng's credit risk is primarily attributable to other receivables and amounts due from related companies and a shareholder.

Xian Yuansheng has concentration of credit risk in relation to receivables from related companies amounting to US$3,250,767, US$1,714,532 and US$1,689,718 as at 31 December 2007, 2008 and 2009, respectively. The amounts due from related companies at the end of each reporting period comprise of two companies, in which a shareholder and director of Xian Yuansheng, Mr. Li Tao ("Mr. Li Tao"), has controlling equity interests. At the end of each reporting period, all receivables from related companies are repayable on demand. In order to minimise the credit risk, the management has reviewed the recoverable amounts of the receivables from related companies regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Xian Yuansheng consider that Xian Yuansheng's credit risk on amounts due from related companies is significantly reduced. In addition, the directors of Xian Yuansheng consider the credit quality of the amounts due from these related companies are good as these companies are financially stable and supported by Mr. Li Tao.

As at 31 December 2009, Xian Yuansheng is also exposed to credit risk in relation to financial guarantees for bank loans raised by certain companies in which Mr. Li Tao has controlling equity interests. The details and the maximum exposure as at 31 December 2009 were disclosed in note 23 to Section E. In preparation for the Proposed Acquisition and pursuant to the Acquisition Agreement (as defined on Section F), all Xian Yuansheng's liabilities, loans, charges on assets and financial guarantees are to be fully settled and released before completion of the Proposed Acquisition. Subsequent to 31 December 2009, bank loans of RMB53,800,000 (approximately US$7,875,000) were repaid by these related companies and the respective guarantees have been released. In addition, the remaining balance of RMB23,500,000 (approximately US$3,440,000) is undergoing repayment process. In this regards, the directors of Xian Yuansheng consider that the credit risk on these financial guarantees are minimised.

Xian Yuansheng's credit risk on bank deposits and bank balances is limited and there is no significant concentration of credit risk because all bank deposits and bank balances are deposited in several state-owned banks with good reputation and with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

Xian Yuansheng had net current liabilities and net liabilities of US$1,922,217 as at 31 December 2009. In management of the liquidity risk, Xian Yuansheng has obtained additional funds pursuant to the First Stage Capital Increase and will initiate a Financial Reorganisation subsequent to 31 December 2009 (see section F for details). In instances where the Financial Reorganisation is unsuccessful, the directors will consider to obtain financial support from the owner or sell the land to raise additional funds to meet its financial obligations in the foreseeable future. Provided that the Financial Reorganisation is successfully completed, the directors of Xian Yuansheng are satisfied that Xian Yuansheng's liquidity risk is significantly reduced.

The following table details Xian Yuansheng's remaining contractual maturity for its financial liabilities and has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Xian Yuansheng can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand or less than 6 months	Over 6 months but not more than 1 year	Total undiscounted cash flows	Carrying amount
		US$	US$	US$	US$
As at 31 December 2007					
Amounts due to related companies	N/A	3,469,330	–	3,469,330	3,469,330
Bank borrowings – fixed-rate	8.9%	–	750,631	750,631	679,895
		3,469,330	750,631	4,219,961	4,149,225
As at 31 December 2008					
Other payables	N/A	11,349	–	11,349	11,349
Amounts due to related companies	N/A	13,749,377	–	13,749,377	13,749,377
Bank borrowings – fixed-rate	9.3%	–	802,934	802,934	717,213
		13,760,726	802,934	14,563,660	14,477,939
As at 31 December 2009					
Other payables	N/A	61	79,569	79,630	79,630
Amounts due to related companies – non-interest bearing portion	N/A	7,373,566	–	7,373,566	7,373,566
Amounts due to related companies – interest bearing portion	8.4%	7,085,425	–	7,085,425	7,085,425
Bank borrowings – fixed-rate	9.9%	–	845,795	845,795	717,213
Financial guarantee contracts	N/A	7,874,707	3,439,696	11,314,403	–
		22,333,759	4,365,060	26,698,819	15,255,834

The amounts included above for financial guarantee contracts are the maximum amounts Xian Yuansheng could be required to settle under the arrangement for the full guarantee amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, Xian Yuansheng considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

7. SEGMENT INFORMATION

Xian Yuansheng is engaged in single business segment being property development business in the PRC. The directors of Xian Yuansheng being the chief operating decision maker reviewed the overall results of Xian Yuansheng for the purpose of result allocation and performance assessment. Xian Yuansheng principally operates in the PRC (country of domicile) with all of its results derived from its operation in the PRC. Analysis of Xian Yuansheng's non-current assets is not presented as they are all located in the PRC.

8. FINANCE COSTS

	Year ended 31 December		
	2007	**2008**	**2009**
	US$	*US$*	*US$*
Interest on:			
– bank borrowings wholly repayable within five years	65,834	96,234	145,222
– amounts due to related companies	–	–	593,407
	65,834	96,234	738,629

9. LOSS FOR THE YEAR

	Year ended 31 December		
	2007	**2008**	**2009**
	US$	*US$*	*US$*
Loss for the year has been arrived at after charging (crediting):			
Directors' remuneration *(note 10)*	–	–	–
Other staff costs	–	–	8,231
Contribution to retirement benefits scheme	–	–	1,357
	–	–	9,588
Depreciation of plant and equipment	–	1,336	–
Interest income	(683)	(439)	(13)

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

No directors' emoluments have been paid or payable to each of the directors for the Relevant Periods.

The five highest paid individuals do not include any director of Xian Yuansheng during the Relevant Periods. The emoluments of the five highest paid individuals during the Relevant Periods are as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	US$	*US$*	*US$*
Employees			
– Salaries and other benefits	–	–	9,588

The emoluments of each of the five highest paid individuals during the Relevant Periods are below US$128,000 (equivalent to HK$1,000,000).

During the Relevant Periods, no emoluments were paid by Xian Yuansheng to any of the directors or the five highest paid individuals as an inducement to join or upon joining Xian Yuansheng or as compensation for loss of office.

11. TAXATION

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Xian Yuansheng is reduced from 33% for 2007 to 25% from 1 January 2008, onwards. The PRC Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the regions of the PRC on the estimated assessable profits of Xian Yuansheng. No provision for PRC Enterprise Income Tax has been made as Xian Yuansheng has no assessable profits during the Relevant Periods.

A statement of reconciliation of taxation is as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	US$	*US$*	*US$*
Loss before taxation	(72,918)	(414,366)	(802,718)
Taxation credit at the applicable income tax rate *(Note)*	(24,063)	(103,592)	(200,680)
Tax effect of expenses not deductible for tax purpose	24,063	103,592	200,680
Taxation for the year	–	–	–

Note: The applicable income tax rate represents PRC Enterprise Income Tax rate of 33% for the year ended 31 December 2007, and 25% for the years ended 31 December 2008 and 2009.

Xian Yuansheng has no unused tax losses at 31 December 2007, 2008 and 2009 available for offset against future profits.

12. PLANT AND EQUIPMENT

	Furniture, fixtures and office equipment	**Motor vehicle**	**Total**
	US$	*US$*	*US$*
COST			
At 1 January 2007	16,655	–	16,655
Exchange realignment	1,411	–	1,411
At 31 December 2007	18,066	–	18,066
Exchange realignment	2,985	1,099	4,084
Additions	80,184	40,161	120,345
Disposals	(7,371)	–	(7,371)
At 31 December 2008 and 31 December 2009	93,864	41,260	135,124
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2007	16,655	–	16,655
Exchange realignment	1,411	–	1,411
At 31 December 2007	18,066	–	18,066
Exchange realignment	2,985	1,099	4,084
Provided for the year	1,336	–	1,336
Eliminated on disposal	(7,371)	–	(7,371)
Impairment loss recognised	78,848	40,161	119,009
At 31 December 2008 and 31 December 2009	93,864	41,260	135,124
CARRYING VALUES			
At 31 December 2007	–	–	–
At 31 December 2008	–	–	–
At 31 December 2009	–	–	–

The above items of plant and equipment are depreciated using straight line method at the following rates per annum:

Furniture, fixtures and office equipment	10% – 20%
Motor vehicle	20%

At 31 December 2008, the directors of Xian Yuansheng conducted a review of Xian Yuansheng's plant and equipment and determined that a number of those assets were specifically identified to be physically worn out or damaged. These assets are identified to have no commercial value. Accordingly, an impairment loss of US$78,848 and US$40,161 respectively, have been recognised in respective of furniture, fixtures and office equipment and motor vehicle.

13. PROPERTIES UNDER DEVELOPMENT

Properties under development represents projects developed for sales after completion. The properties under development at the end of each reporting period represents development cost incurred for construction situated in the PRC and held under land use rights for terms expiring within 50-70 years. The projects are expected to be completed after one year from 31 December 2009.

14. AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies represents amounts due from companies in which Mr. Li Tao has controlling equity interests. The amounts are unsecured, interest-free and repayable within one year, except for amounts of US$1,714,532 and US$1,689,718 at 31 December 2007 and 31 December 2008, respectively, which the directors of Xian Yuansheng expect are repayable over one year. All the amounts are denominated in RMB at the end of each reporting period. The maximum amount outstanding during each of the three years ended 31 December 2009 are US$3,250,767, US$1,714,532 and US$1,689,718, respectively.

15. AMOUNT DUE FROM A SHAREHOLDER

The amount represents an amount due from Mr. Li Tao and is unsecured, interest-free and repayable within one year. The maximum amount outstanding during each of the three years ended 31 December 2009 are US$29,535, US$31,156 and US$31,156, respectively.

16. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by Xian Yuansheng and short-term bank deposits with original maturity of less than three months and are denominated in RMB.

	As at 31 December		
	2007	**2008**	**2009**
	%	%	%
Range of interest rates of the bank deposits per annum	0.01% to 0.73%	0.01% to 0.64%	0.01% to 0.59%

17. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies represents amounts due to companies in which Mr. Li Tao has controlling equity interests. The amounts are unsecured, interest-free and repayable on demand, except for an amount of US$7,085,425 at 31 December 2009 which bears fixed rate interest of 8.40% per annum. All the amounts are denominated in RMB at the end of each reporting period.

18. BANK BORROWINGS

The bank borrowings are fixed-rate at 8.9%, 9.3% and 9.9% per annum at 31 December 2007, 2008 and 2009 respectively. The amounts are repayable within one year and are secured by a piece of land held by Xian Yuansheng. All bank borrowings are denominated in RMB at the end of each reporting period.

19. PAID-IN CAPITAL

The paid-in capital of Xian Yuansheng at 31 December 2007, 2008 and 2009 represented the fully paid registered capital of Xian Yuansheng.

20. ACQUISITION OF ASSETS

On 24 November 2008, Xian Yuansheng acquired a piece of land situated in Xian, the PRC, from a company in which Mr. Li Tao has controlling equity interests, for consideration of approximately RMB29,433,000 (approximately US$4,308,000). The land was valued by a qualified PRC valuer, which is independent to Xian Yuansheng. The fair value of the land at the time of acquisition was RMB29,433,000 (approximately US$4,308,000) and the consideration was settled through the current account with this related company.

21. COMMITMENTS

	As at 31 December		
	2007	**2008**	**2009**
	US$	*US$*	*US$*
Expenditure in respect of construction of properties under development contracted for but not provided in the Financial Information	15,868,339	16,739,333	16,739,333

22. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2008, Xian Yuansheng acquired a piece of land from a company, in which Mr. Li Tao has controlling equity interests. The consideration of RMB29,433,143 (approximately US$4,308,000) was settled through the current account with this related company.

During the year ended 31 December 2008, development cost of approximately RMB4,297,000 (approximately US$612,000) and additional land cost of approximately RMB46,613,000 (approximately US$6,641,000) incurred by Xian Yuansheng were settled through current accounts with companies in which Mr. Li Tao has controlling equity interest.

During the year ended 31 December 2008, Xian Yuansheng acquired certain office equipment from a company, in which Mr. Li Tao has controlling equity interests. The consideration of RMB563,000 (approximately US$80,184) was settled through the current account with this related company.

23. PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

At 31 December 2008 and 2009, land use rights with carrying value of US$4,308,000 included in properties under development was pledged for securing bank borrowings raised by Xian Yuansheng.

During the year ended 31 December 2009, Xian Yuansheng has provided financial guarantee and pledged its land use rights with carrying value of US$4,308,000 (the "Land Charge") for bank loans in an aggregate amount of RMB77,300,000 (approximately US$11,314,000) raised by certain companies in which Mr. Li Tao has controlling equity interests. These bank loans raised were also jointly guaranteed by Mr. Li Tao. In preparation for the Proposed Acquisition and pursuant to the Acquisition Agreement (as defined in Section F), Xian Yuansheng is required to discharge the Land Charge and release the financial guarantees before completion of the Proposed Acquisition. As at the date of this report, bank loans in an aggregate amount of RMB53,800,000 (approximately US$7,875,000) have been settled by the related companies and corresponding guarantees have been released. As at the date of this report, the application for discharging the related Land Charge is in progress.

In respect of the financial guarantees given by Xian Yuansheng to related companies, Xian Yuansheng has not performed a valuation of these financial guarantee contracts at the date of inception and at 31 December 2009 and recognised its financial impact on Xian Yuansheng in accordance with HKAS39 "Financial Instruments: Recognition and Measurement". The directors of Xian Yuansheng were unable to obtain reliable and sufficient financial information of these related companies and find appropriate inputs into the valuation model to determine their fair values. In the opinion of the directors of Xian Yuansheng, to conduct such a valuation would involve significant judgements and delay out of proportion to the value to the members of Xian Yuansheng.

24. RETIREMENT BENEFIT SCHEME

The employees of Xian Yuansheng in the PRC are members of state-managed retirement benefit schemes operated by the respective local government in the PRC. Xian Yuansheng is required to contribute a specified percentage of payroll cost to the retirement benefit schemes to fund the benefits. The only obligation of Xian Yuansheng with respect to these schemes is to make the required contributions under the schemes.

25. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2008, Xian Yuansheng acquired a piece of land from a company, in which Mr. Li Tao has controlling equity interests. The consideration of approximately RMB29,433,000 (approximately US$4,308,000) was settled through the current account with this related company.

During the year ended 31 December 2008, Xian Yuansheng has entered into a contract with a company, in which Mr. Li Tao is also a director, to carry out environmental improvement work on a piece of land held by Xian Yuansheng. The contracted amount under the improvement work was RMB102,875,000 (approximately US$15,058,000). As such improvement work has not yet commenced as at 31 December 2009, the contracted amount has been included as commitment as at 31 December 2009.

During the year ended 31 December 2008, Xian Yuansheng acquired certain office equipments from a company, in which Mr. Li Tao has controlling equity interests. The consideration of RMB563,000 (approximately US$80,184) was settled through the current account with this related company.

During the year ended 31 December 2008, development cost of approximately RMB4,297,000 (approximately US$612,000) and additional land cost of approximately RMB46,613,000 (approximately US$6,641,000) incurred by Xian Yuansheng were settled through current accounts with companies in which Mr. Li Tao has controlling equity interest.

At 31 December 2008 and 2009, the land use right with carrying value of US$4,308,000 included in properties under development, was pledged against a bank loan granted to a related company, in which Mr. Li Tao has controlling equity interests.

During the year ended 31 December 2009, Xian Yuansheng has provided financial guarantee and pledged its land use rights with carrying value of US$4,308,000 (the "Land Charge") for bank loans in an aggregate amount of RMB77,300,000 (approximately US$11,314,000) raised by certain companies in which Mr. Li Tao has controlling equity interests. As at the date of this report, bank loans in an aggregate amount of RMB53,800,000 (approximately US$7,875,000) have been settled by the related companies and corresponding guarantees have been released. As at the date of this report, the application for discharging the related Land Charge is in progress.

Other than the transactions disclosed above and balances with related parties disclosed in respective notes to Section E, during the year ended 31 December 2009, Xian Yuansheng has paid interest to a company in which Mr. Li Tao has controlling equity interests amounting to US$593,407. The interest expense was settled through current account with this related company.

F. EVENT AFTER THE REPORTING PERIOD

Subsequent to 31 December 2009, Xian Yuansheng had the following subsequent events:

(a) On 28 January 2010, Xian Yuansheng has obtained a bank loan amounting to RMB4,400,000 (approximately US$644,000). The bank loan bears monthly interest at 0.765% and is guaranteed by a related company, in which Mr. Li Tao has controlling equity interests.

(b) On 25 May 2010 and 7 June 2010, bank loans in an aggregate amount of RMB53,800,000 (approximately US$7,875,000) raised by related companies have been settled and corresponding guarantees have been released. As at the date of this report, the application for discharging the related Land Charge is in progress.

(c) On 10 May 2010, the owners of Xian Yuansheng has entered into an agreement with 成都宏邦投資有限公司 (Chengdu Hongbang Investments Limited) ("Chengdu Hongbang"), to transfer 100% of the equity interest in Xian Yuansheng to Chengdu Hongbang. Subsequent to the transfer, on 4 June 2010, Chengdu Hongbang has injected additional capital of RMB15,000,000 to Xian Yuansheng (the "First Stage Capital Increase"). Upon completion of the First Stage Capital Increase, the registered capital of Xian Yuansheng increased from RMB5,000,000 to RMB20,000,000. As at the date of this report, Xian Yuansheng is wholly-owned by Chengdu Hongbang.

(d) In preparation for the proposed indirect acquisition of Xian Yuansheng by FHL (the "Proposed Acquisition"), on 28 May 2010, Chengdu Hongbang has entered into an agreement with Allywing Investments Limited ("Allywing"), a company which is 100% owned by Mr. Zhang Xi, the Chairman of FHL, to dispose 60% interest in Xian Yuansheng to Allywing (the "Capital Increase Agreement"). Pursuant to the Capital Increase Agreement, Allywing has agreed to make a capital injection of RMB30,000,000 (the "Second Stage Capital Increase") to Xian Yuansheng. Upon the completion of the Second Stage Capital Increase, the registered capital of Xian Yuansheng will increase from RMB20,000,000 to RMB50,000,000 and Allywing and Chengdu Hongbang will own 60% and 40% equity interest of Xian Yuansheng (Allywing together with Xian Yuansheng referred to as the "Target Group").

(e) On 28 May 2010, Mr. Zhang Xi and the shareholders of Chengdu Hongbang entered into an agreement (the "Ancillary Agreement"), pursuant to which Mr. Zhang Xi has agreed to pay the owners of Chengdu Hongbang a sum of RMB254,848,920 as the consideration in relation to taking control and obtain 60% equity interest in Xian Yuansheng from Chengdu Hongbang to cover the shortfall between the value of the underlying asset of Xian Yuansheng, which is the leasehold land, and the amount of the capital injection payable by Allywing under the Capital Increase Agreement.

(f) On 1 June 2010, a wholly-owned subsidiary of FHL (the "Purchaser") has entered into an agreement with Mr. Zhang Xi to acquire the entire interest in Allywing (the "Acquisition Agreement"). Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire the entire issued share capital of Allywing and the shareholder's loan owing to Mr. Zhang Xi at the consideration of RMB284,848,920 (approximately US$41,693,000). The major terms and precedent conditions of the Acquisition Agreement are set out in FHL's announcement dated 9 June 2010, which mainly includes:

(i) the First Stage Capital Increase shall have been duly and properly completed and shall have been fully paid and approval of the First Stage Capital Increase by the relevant governmental authority in the PRC shall have been obtained;

(ii) the Second Stage Capital Increase under the Capital Increase Agreement shall have been duly and properly completed and shall have been fully paid to result in the final structure of the Target Group and approval of the Second Stage Capital Increase by the relevant governmental authority in the PRC shall have been obtained;

(iii) the land use and development rights of the land held by Xian Yuansheng shall remain valid and binding and not being revoked and not being varied, amended or modified unless with the prior written consent of the Purchaser;

(iv) the qualification certificate for real estate development enterprise (房地產開發企業資質證書) held by Xian Yuansheng shall remain valid and binding and not being revoked and not being varied, amended or modified unless with the prior written consent of the Purchaser;

(v) the provision of evidence by Mr. Zhang Xi to the Purchaser to the absolute satisfaction of the Purchaser that (i) the Land Charge and the relevant guarantees given by Xian Yuansheng in relation to the loans raised by related companies (see note 23 of section E) have been fully and completely discharged and released; and (ii) save and except for the shareholder's loan, all loans, debts, liabilities or other financial facilities outstanding or available to the Target Group (including Xian Yuansheng and Allywing) shall have been fully settled and the Target Group shall have no liabilities on completion of the Proposed Acquisition;

(vi) PRC legal opinions from the PRC legal advisers acceptable to the Purchaser (in forms and contents satisfactory to the Purchaser in its absolute discretion) on, inter alia: (i) the due incorporation, shareholders and scope of business activities of the relevant member of the Target Group in the PRC; (ii) that Allywing has become the legal and owner of the 60% of the equity interest in the Company free from any encumbrance; (iii) the relevant licences and consent (or renewal thereof, as the case may be) in relation to the land and/or the development of the land, including but not limited to the land use right certificates of the land and the qualification certificate for real estate development enterprise, having been validly issued by the proper PRC government authorities; (iv) the renewal of the deadlines for (a) commencement of construction work on the land before the prescribed commencement date (i.e. 30 December 2008) and (b) completion of the construction work on the land before the prescribed completion date (i.e. 31 December 2010) pursuant to the land contracts; (v) the Land not being treated as idle land and (vi) such other matters as may be required by the Purchaser, shall have been delivered to the Purchaser to its absolute satisfaction.

G. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Xian Yuansheng of subsequent to 31 December 2009.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

On 1 June 2010, a wholly-owned subsidiary of Fulbond Holdings Limited (the "Company"), Good Base Investments Limited (the "Purchaser") has entered into an agreement (the "Acquisition Agreement") with Mr. Zhang Xi (the "Vendor") a director of the Company, in which the Purchaser has conditionally agreed to acquire the entire issued share capital of Allywing Investments Limited (the "Target Company") and the shareholder's loan owing by the Target Company to its sole shareholder, being Mr. Zhang Xi (the "Shareholder's Loan"), at a cash consideration of RMB284,848,920 (approximately US$41,693,000) (the "Acquisition").

On 28 May 2010, prior to the Acquisition, the Target Company and Chengdu Hongbang Investments Limited ("Chengdu Hongbang") have entered into an agreement (the "Capital Increase Agreement"), pursuant to which the Target Company has agreed to make capital injection in a sum of RMB30,000,000 to Xian Yuansheng Enterprises Limited ("Xian Yuansheng"). Upon completion of the Capital Increase Agreement, the registered capital of Xian Yuansheng has increased from RMB20,000,000 to RMB50,000,000, and the Target Company and Chengdu Hongbang owned 60% and 40% equity interests in Xian Yuansheng, respectively. Xian Yuansheng is engaged in the property development business and holds the land use and development rights of a piece of land in Xian (the "Land").

The accompanying unaudited pro forma financial information of the Company and its subsidiaries (together with the Company referred to as the "Group"), the Target Company and Xian Yuansheng (collectively referred to as the "Enlarged Group") has been prepared to illustrate the effect of the proposed Acquisition. On completion of the Acquisition, the Company will indirectly own 100% equity interest in the Target Company and 60% equity interest in Xian Yuansheng (the Target Company and Xian Yuansheng together collectively referred to as the "Target Group").

The unaudited pro forma financial information of the Enlarged Group has been prepared on the assumption that the Acquisition had been completed on 31 December 2009 in the case of the unaudited pro forma consolidated statement of financial position, and on 1 January 2009 in the case of the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group.

For the purpose of the unaudited pro forma financial information, RMB amounts have been translated into USD amounts at a closing rate of USD1.00 = RMB6.832 (being the exchange rate prevailing as at 31 December 2009) in respect of balances as at 31 December 2009 for the unaudited pro forma consolidated statement of financial position and at an average rate of USD1.00 = RMB6.832 (being the average exchange rate prevailing 2009) for the unaudited pro forma consolidated statement of comprehensive income and statement of cash flows for the year ended 31 December 2009.

1. Unaudited pro forma consolidated statement of financial position of the Enlarged Group

This unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if it had taken place on 31 December 2009.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is based on the audited consolidated statement of financial position as at 31 December 2009 of the Company as extracted from the Company's published annual report for the year ended 31 December 2009 and the statements of financial position of the Target Company and Xian Yuansheng as at 31 December 2009 as extracted from the Accountants' Reports on the financial information of the Target Company and Xian Yuansheng as set out in Appendices IIA and IIB to this circular, respectively, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable. Accordingly, the unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared for illustrative purpose only and because of its nature, may not give a true picture of the financial position of the Enlarged Group as at 31 December 2009 or any future date.

Unaudited pro forma consolidated statement of financial position

As at 31 December 2009

	The Target Company	Xian Yuansheng	Sub total	Pro forma adjustments					Pro forma Target Group	The Group	Pro forma adjustments		Pro forma Enlarged Group
	A	B	C = A + B	Note (a)				D	E = C + D	F	G	H	I = E + F + G + H
				(i)	(ii)	(iii)	(iv)	Sub total			Note (b)	Note (c)	
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Non-current assets													
Property, plant and equipment	–	–	–						–	857			857
Intangible assets	–	–	–						–	–			–
Prepaid lease payments	–	–	–						–	636			636
Other advances	–	–	–						–	–			–
Goodwill	–	–	–						–	–			–
Investment in subsidiary	–	–	–		4,391	(4,391)		–	–	–			–
Interest in associates	–	–	–						–	–			–
Other investments	–	–	–						–	–			–
Club debenture	–	–	–						–	–			–
Deferred tax asset	–	–	–						–	–			–
	–	–	–						–	1,493			1,493
Current assets													
Inventories	–	–	–						–	5,876			5,876
Properties under development	–	11,561	11,561						11,561	–	57,876		69,437
Trade and other receivables	–	50	50						50	2,982			3,032
Deposits and prepayments	–	–	–						–	1,585			1,585
Amount due from related companies	–	1,690	1,690				(1,690)	(1,690)	–	–			–
Amount due from a shareholder	–	31	31				(31)	(31)	–	–			–
Prepaid lease payments	–	–	–						–	–			–
Bank balances and cash	1,278	1	1,279	2,196	3,113		(6,587)	(1,278)	1	29,183	(29,183)		1
	1,278	13,333	14,611						11,612	39,626			79,931
Assets classified as held for sale	–	–	–						–	39,071			39,071
	1,278	13,333	14,611						11,612	78,697			119,002

	The Target Company	Xian Yuansheng	Sub total	Pro forma adjustments					Pro forma Target Group	The Group	Pro forma adjustments		Pro forma Enlarged Group
	A	B	C = A + B	Note (a)				D	E = C + D	F	G	H	I = E + F + G + H
				(i)	*(ii)*	*(iii)*	*(iv)*	Sub total			*Note (b)*	*Note (c)*	
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Current liabilities													
Trade and other payables	–	79	79				(79)	(79)	–	27,631	12,510	351	40,492
Amounts due to associates	–	–	–						–	76			76
Amount due to a shareholder	1,279	–	1,279		3,113			3,113	4,392	–	(4,392)		–
Amounts due to directors of subsidiaries	–	–	–						–	473			473
Amount due to related companies	–	14,459	14,459				(14,459)	(14,459)	–	–			–
Taxation payable	–	–	–						–	319			319
Obligation under finance lease	–	–	–						–	10			10
Warrants	–	–	–						–	10,430			10,430
Convertible notes	–	–	–						–	26,727			26,727
Bank and other borrowings – amount due within one year	–	717	717				(717)	(717)	–	10,364			10,364
	1,279	15,255	16,534						4,392	76,030			88,891
Liabilities associated with assets classified as held for sale	–	–	–						–	17,278			17,278
	1,279	15,255	16,534						4,392	93,308			106,169
Net current (liabilities) assets	(1)	(1,922)	(1,923)						7,220	(14,611)			12,833
Total assets less current liabilities	(1)	(1,922)	(1,923)						7,220	(13,118)			14,326
Non-current liabilities													
Convertible notes	–	–	–						–	46,373			46,373
Obligation under finance lease	–	–	–						–	20			20
	–	–	–						–	46,393			46,393
	(1)	(1,922)	(1,923)						7,220	(59,511)			(32,067)
Capital and reserves													
Share capital/Paid in capital	–	602	602	2,196	4,391	(7,189)		(602)	–	14,013			14,013
Reserves	(1)	(2,524)	(2,525)			932	4,168	5,100	2,575	(74,005)	(2,575)	(351)	(74,356)
Equity attributable to equity owners of the company	(1)	(1,922)	(1,923)						2,575	(59,992)			(60,343)
Minority interests	–	–	–			1,866	2,779	4,645	4,645	481	23,150		28,276
	(1)	(1,922)	(1,923)						7,220	(59,511)			(32,067)

2. Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group

This unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group is prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition assuming it had been completed as of 1 January 2009.

The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group has been prepared based on the audited consolidated statement of comprehensive income of the Company as extracted from the Company's published annual report for the year ended 31 December 2009 and the statements of comprehensive income of the Target Company and Xian Yuansheng for the year ended 31 December 2009 as extracted from the Accountants' Reports on the financial information of the Target Company and Xian Yuansheng as set out in Appendices IIA and IIB to this circular, respectively, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable. Accordingly, the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group is prepared for illustrative purpose only and because of its nature, may not give a true picture of the results of the Enlarged Group for the year ended 31 December 2009 or any future period.

Unaudited pro forma consolidated statement of comprehensive income
For the year ended 31 December 2009

	The Target Company	Xian Yuansheng	Subtotal	Pro forma adjustment	Pro forma Target Group	The Group	Pro forma adjustment	Pro forma Enlarged Group
	A	B	C = A + B	D	E = C + D	F	G	H = E + F + G
				Note (a)(v)			*Note (c)*	
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Continuing operations								
Turnover	–	–	–		–	15,605		15,605
Cost of sales	–	–	–		–	(13,773)		(13,773)
Gross profit	–	–	–		–	1,832		1,832
Other income	–	–	–		–	835		835
Other gains and losses	–	–	–		–	(42,026)		(42,026)
Selling and distribution costs	–	–	–		–	(1,283)		(1,283)
Administrative expenses	–	(64)	(64)		(64)	(4,208)	(351)	(4,623)
Finance costs	–	(739)	(739)	739	–	(6,803)		(6,803)
Loss before taxation	–	(803)	(803)		(64)	(51,653)		(52,068)
Taxation	–	–	–		–	(84)		(84)
Loss for the year from continuing operations	–	(803)	(803)		(64)	(51,737)		(52,152)
Discontinued operation								
Loss for the year from discontinued operation	–	–	–		–	(2,371)		(2,371)
Loss for the year	–	(803)	(803)		(64)	(54,108)		(54,523)
Loss for the year attributable to:								
Owners of the Company	–	(803)	(803)	765	(38)	(53,877)	(351)	(54,266)
Minority interests	–	–	–	(26)	(26)	(231)		(257)
	–	(803)	(803)		(64)	(54,108)		(54,523)

3. Unaudited pro forma consolidated statement of cash flows of the Enlarged Group

This unaudited pro forma consolidated statement of cash flows of the Enlarged Group is prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition assuming it had been completed as of 1 January 2009.

The unaudited pro forma consolidated statement of cash flows of the Enlarged Group has been prepared based on the audited consolidated statement of cash flows of the Company as extracted from the Company's published annual report for the year ended 31 December 2009 and the statements of cash flows of the Target Company and Xian Yuansheng for the year ended 31 December 2009 as extracted from the Accountants' Reports on the financial information of the Target Company and Xian Yuansheng as set out in Appendices IIA and IIB of this circular, respectively, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable. Accordingly, the unaudited pro forma consolidated statement of cash flows of the Enlarged Group is prepared for illustrative purpose only and because of its nature, may not give a true picture of the cashflows of the Enlarged Group for the year ended 31 December 2009 or any future period.

Unaudited pro forma consolidated statement of cash flows
For the year ended 31 December 2009

	The Target Company	Xian Yuansheng	Subtotal	Pro forma adjustment	Pro forma Target Group	The Group	Pro forma adjustments	Pro forma Enlarged Group
	A	B	C = A + B	D	E = C + D	F	G	H = E + F + G
				Note (a)(vi)			*Notes (b) & (c)*	
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Operating activities								
Loss before taxation from continuing and discontinued operations	–	(803)	(803)	739	(64)	(54,995)	(351)	(55,410)
Adjustments for:								
Amortisation of prepaid lease payments	–	–	–		–	52		52
Amortisation of intangible assets	–	–	–		–	530		530
Net losses of derivative financial instruments and warrants	–	–	–		–	47,035		47,035
Depreciation of property, plant and equipment	–	–	–		–	2,347		2,347
Interest income	–	–	–		–	(100)		(100)
Finance costs	–	739	739	(739)	–	7,604		7,604
Gain on disposal of property, plant and equipment	–	–	–		–	(4)		(4)
Gain on early redemption of convertible notes	–	–	–		–	(5,083)		(5,083)
Allowance for bad and doubtful debts	–	–	–		–	85		85
Impairment loss recognised in respect of intangible assets	–	–	–		–	2,009		2,009
Operating cash flows before movements in working capital	–	(64)	(64)		(64)	(520)		(935)
Decrease in inventories	–	–	–		–	1,256		1,256
Decrease in trade and other receivables	–	–	–		–	6,034		6,034
Increase in deposits and prepayments	–	–	–		–	(4,042)		(4,042)
Decrease in trade and other payables	–	(11)	(11)	11	–	(641)		(641)
Cash (used in) generated from operations	–	(75)	(75)		(64)	2,087		1,672
PRC Enterprise Income Tax paid	–	–	–		–	(84)		(84)
Net cash (used in) generated from operating activities	–	(75)	(75)		(64)	2,003		1,588

	The Target Company	Xian Yuansheng	Subtotal	Pro forma adjustment	Pro forma Target Group	The Group	Pro forma adjustments	Pro forma Enlarged Group
	A	B	C = A + B	D	E = C + D	F	G	H = E + F + G
				Note (a)(vi)			*Notes (b) & (c)*	
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Investing activities								
Interest received	–	–	–		–	100		100
Deposits received from proposed disposal of subsidiaries	–	–	–		–	15,742		15,742
Purchases of property, plant and equipment	–	–	–		–	(1,690)		(1,690)
Proceeds from disposal of property, plant and equipment	–	–	–		–	8		8
Repayment from related companies	–	25	25	(25)	–	–		–
Net cash from investing activities	–	25	25		–	14,160		14,160
Financing activities								
Interest paid	–	(66)	(66)	66	–	(1,379)		(1,379)
Acquisition of subsidiary	–	–	–		–	–	(30,218)	(30,218)
Advance from a director of a subsidiary	–	–	–		–	1,600		1,600
New bank loans raised	–	717	717	(717)	–	16,805		16,805
Repayments of bank loans	–	(717)	(717)	717	–	(16,227)		(16,227)
Repayment to associates	–	–	–		–	(49)		(49)
Redemption of convertible notes	–	–	–		–	(23,267)		(23,267)
Dividends paid to minority shareholders of a subsidiary	–	–	–		–	(486)		(486)
Advance from (repayment to) a shareholder	1,278	–	1,278	(1,278)	–	(162)		(162)
Advance from related companies	–	137	137	(137)	–	–		–
Repayments to related companies	–	(21)	(21)	21	–	–		–
Proceed from issue of convertible notes	–	–	–		–	25,290		25,290
Proceed from exercise of warrants	–	–	–		–	3,552		3,552
Net cash generated from (used in) financing activities	1,278	50	1,328		–	5,677		(24,541)
Net increase in cash and cash equivalents	1,278	–	1,278		(64)	21,840		(8,793)
Cash and cash equivalents at 1 January	–	1	1		1	8,882	(1)	8,882
Effect of changes in foreign exchange rates	–	–	–		–	(89)		(89)
Cash and cash equivalents at 31 December, represented by bank balances and cash	1,278	1	1,279		(63)	30,633		–

Notes to the unaudited Pro Forma Financial Information

(a) The adjustments reflect, pursuant to the Acquisition Agreement, the following transactions that have taken place or will take place prior to the Acquisition relating to precedent conditions that are relevant for the purpose of this pro forma financial information:

(i) Chengdu Hongbang made a capital injection of RMB15,000,000 (approximately US$2,196,000) to Xian Yuansheng on 4 June 2010 (the "First Stage Capital Increase"). The proceed from the First Stage Capital Increase will be used to settle all related party balances and bank loans (see Note (a)(iv) below).

(ii) Pursuant to the Capital Increase Agreement, the Target Company has agreed to make capital injection in a sum of RMB30,000,000 (approximately US$4,391,000) to Xian Yuansheng (the "Second Stage Capital Increase") and thereby obtain 60% equity interest in Xian Yuansheng. The Second Stage Capital Increase shall be financed by an advance from Mr. Zhang Xi to the Target Company (the "Shareholder's Loan") through utilising the existing cash balance of the Target Company of US$1,278,000 at 31 December 2009 and additional cash proceed from Mr. Zhang Xi of US$3,113,000 which is recorded as amount due to a shareholder and the aggregate amount of US$4,391,000 will be assigned to the Purchaser upon completion of the Acquisition. The adjustment also reflects the record of investment in subsidiary by the Target Company and increase in paid in capital of Xian Yuansheng of US$4,391,000 on respective company level's books.

(iii) After completion of the First Stage Capital Increase and Second Stage Capital Increase, the pro forma net asset of Xian Yuansheng will be US$4,665,000 (representing the sum of the net liabilities at 31 December 2009 of US$1,922,000 and total capital increase of US$6,587,000 (Notes (i) and (ii) above)). The adjustment represents the effect of elimination of pre-acquisition reserve of US$2,524,000 and elimination of paid in capital of Xian Yuansheng of US$7,189,000; creation of a debit side special reserve of US$1,592,000 representing the excess of the capital injected in Xian Yuansheng of US$4,391,000 over the 60% net asset value of US$2,799,000 obtained by the Target Company; and accounting for the 40% minority owner's share of net asset of US$1,866,000 in Xian Yuansheng.

(iv) Except for the Shareholder's Loan, all loans debts, liabilities or other financial facilities outstanding or available to the Target Group will have been fully settled and the Target Group will have no liabilities and only holds the Land immediately prior to the completion of the Acquisition. The settlement of all liabilities, related party balances and bank loans (in aggregate net amount of US$13,534,000, comprising amounts due from related companies of US$1,690,000, amount due from a shareholder of US$31,000, amounts due to related companies of US$14,459,000, other payables of US$79,000 and bank loans of US$717,000 as at 31 December 2009) will be financed by the proceeds from the First Stage Capital Increase and the

Second Stage Capital Increase in aggregate of RMB45,000,000 (approximately US$6,587,000) and the remaining balance of US$6,947,000 will also be financed by the minority owner of Xian Yuansheng in form of a shareholder's loan from Chengdu Hongbang. The minority owner's contribution of US$6,947,000 will be subsequently capitalised as to US$4,168,000 to capital reserve and US$2,779,000 to minority interest, representing the increase in minority owner's share of net asset in Xian Yuansheng.

(v) The 40% minority share of profit or loss for the year ended 31 December 2009 as if the Acquisition was completed on 1 January 2009. The adjustment includes the effect of reversal of finance cost of US$739,000 relating to bank loans and certain interest bearing amounts due to related parties which, for pro forma purpose, were assumed to have been repaid on 1 January 2009.

(vi) The cash flow effects of the above transactions including settlement of all liabilities, related party balances and bank loans which, for pro forma purpose, were assumed to have been repaid on 1 January 2009; and the relevant reversal of finance cost of US$739,000 and interest payment of US$66,000.

(b) The adjustments reflect the acquisition of the Target Group, which includes the following:

(i) Recognition of the consideration of RMB284,848,920 (approximately US$41,693,000) payable in cash upon completion of the Acquisition. The consideration shall be paid in cash by the Purchaser to the Vendor (or as it may direct) on the Completion Date in HK$ at the exchange rate between HK$ and RMB being the average of the ask and bid exchange rate as quoted by the Bank of China (Hong Kong) at the close of business on the business day immediately preceding the Completion Date, provided that in any event the total consideration payable by the Purchaser shall not exceed HK$330,000,000. It is assumed that the Group will use up its bank balances and cash at 31 December 2009 of US$29,183,000 for settlement of the consideration and professional fee of US$351,000, and the remaining amount of consideration payable of US$12,510,000 has been included in trade and other payables.

(ii) As the principal asset held by the Target Company immediately prior to the completion of the Acquisition is the Land, the Acquisition is to be accounted for as acquisition of assets instead of business under HKFRS 3 "Business Combinations". The adjustment of US$57,876,000 represents the excess of the fair value of the Land of US$69,437,000 over its carrying amount of US$11,561,000 at 31 December 2009. The appraised value of the Land performed by an independent valuer as at 30 April 2010 was RMB470,000,000 (approximately US$68,794,000). The valuation was used as a reference to determine the purchase consideration on 1 June 2010 when the Acquisition Agreement was entered. The difference represents the premium willing to be paid by the Company in acquiring 60% indirect equity interest in Xian Yuansheng effectively holding the Land.

(iii) The effect of elimination of pre-acquisition reserves of US$2,575,000 and share capital of the Target Company after taking into account of the pro forma adjustments as set out in note (a) above.

(iv) The elimination of the Shareholder's Loan estimated to be outstanding upon completion of the Acquisition of US$4,392,000, represents the RMB30,000,000 advance from Mr. Zhang Xi to the Target Company for acquisition of 60% equity interest in Xian Yuansheng as explained in note (a)(ii) above.

(v) The recognition of 40% minority interests of the Target Group of US$27,795,000 as at 31 December 2009, comprising the share of net liabilities of Xian Yuansheng of US$1,922,000, the effect of settlement of all liabilities, related parties balances and bank loans (in aggregate net amount of US$13,534,000) referred in note (a)(iii) and (iv) and share of fair value adjustment of the Land of US$23,150,000.

(vi) The net cash outflow arising from the Acquisition assumed the Group will use up its bank balances and cash at 1 January 2009 of US$8,882,000 and utilising all net cash generated during the year ended 31 December 2009 of US$21,337,000 and the amount of bank balances and cash acquired at the beginning of the year in Xian Yuansheng of US$1,000.

(c) The adjustment reflects the accrual of professional fee attributable to the Acquisition amounting to US$351,000.

(d) The zero balance of cash and cash equivalent of the Enlarged Group at the end of the year represents the amount of net decrease in cash and cash equivalent of the Enlarged Group in excess of the cash and cash equivalent at the beginning of the year and the effect of foreign exchange rate changes after accounting for the payment of the cash consideration as referred to note (b)(i) and the transaction cost paid of US$351,000, resulting the Group faces a cash short fall of US$12,509,000 which, and is recorded as other payables (for pro forma purpose only). The Acquisition is to be financed by the placing of the second tranche convertible notes up to an aggregate principal amount of HK$350,000,000 as referred in this circular. The effect of the placing has not been included in this unaudited pro forma financial information as it is considered not directly attributable to the Acquisition.

(e) Pursuant to the Acquisition Agreement, the Purchaser has a right to exercise the put option (the "Put Option") to require the Vendor to purchase back from the Purchaser the entire share (together with any outstanding shareholder's loan due and owing by the Target Company to the Purchaser at the time when the Put Option is completed (the "New Shareholder's Loan"), the Shareholder's Loan and any shareholder's loan granted by the Purchaser to the Target Company after completion (the "Additional Shareholder's Loan")) at the option price in the event that a new construction land planning permit (建設用地規劃許可證) or the renewal of the existing construction land planning permit for the Land upon such terms and conditions as may be acceptable to the Purchaser cannot be obtained on or before 31 December 2010 (or such later date as may be agreed by the Purchaser) (the "Latest Issue Date"). The Put Option is exercisable up to the expiry of 12 months from the Latest Issue Date. The exercise of the Put Option is at the discretion of the Purchaser. The Put Option is granted in consideration of the Purchaser agreeing to purchase the shares of the Target Company and the Shareholder's Loan and thus no premium is required to be paid by the Purchaser for the grant of the Put Option. If the Purchaser is to exercise the option, further pro forma adjustments have to be put through to reverse all the adjustments as set out in notes (a) to (d) above to deconsolidate all the assets and liabilities of the Target Group being acquired in the unaudited pro forma consolidated statement of financial position of the Enlarged Group. The unaudited pro forma consolidated statement of financial position of the Group after taking into account of these further adjustments will be the same as those of the Group before the Acquisition.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION FOR THE ENLARGED GROUP

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF FULBOND HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Fulbond Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Xian Yuansheng Enterprises Limited ("Xian Yuansheng") and Allywing Investments Limited (the "Target Company") (together with the Group hereinafter collectively referred to as the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of and the assignment of shareholder's loan of the Target Company might have affected the financial information presented, for inclusion in Appendix III of the circular dated 28 June 2010 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages III-1 to III-10 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

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

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

Basis of opinion

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 December 2009 or any future date; or

- the results and cash flows of the Enlarged Group for the year ended 31 December 2009 or any future period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 June 2010

1. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Review of the year ended 31 December 2009 of the Group

Revenue

For the year ended 31 December 2009, the Group's revenue from continuing and discontinued operations increased to approximately US$53,661,000 from approximately US$36,308,000 last year, representing an increase of approximately 47.79%.

Segmental results

The turnover of the timber business for the year decreased to approximately US$15,605,000 from US$21,883,000 last year, representing a drop of approximately 28.69%. The segment result of the timber business had suffered a loss of US$948,000 from loss of US$8,062,000 in 2008, representing an improvement of approximately 88.24%.

The turnover of food processing and distribution business for the year increased to approximately US$38,056,000 from US$14,425,000 since acquisition in 2008, representing an increase of approximately 163.82%. The segment result of the food processing and distribution business had suffered a loss of approximately US$130,000 from profit of approximately US$1,904,000 in 2008, as a result of deteriorating performance in the food processing and distribution business in 2009.

Cost of sales

The Group's cost of sales from continuing and discontinued operations for the year increased to approximately US$49,522,000 from approximately US$29,232,000 last year, representing an increase of approximately 69.41%.

Gross profit

The Group's gross profit from continuing and discontinued operations for the year decreased to approximately US$4,139,000 from approximately US$7,076,000 last year, representing a drop of approximately 41.51%. Accordingly, the gross profit margin dropped to approximately 7.71% for the year from approximately 19.49% in 2008.

Other income

The Group's other income from continuing and discontinued operations for the year increased to approximately US$2,580,000 from approximately US$1,757,000 of last year, representing an increase of approximately 46.84%. The increase was primarily due to the government grants of approximately US$971,000 which have been received in 2009 for expenditures incurred in relation to energy saving and waste reduction and other subsidies granted for the Group's food processing and distribution business.

Other gains and losses

Other losses of the Group amounted to approximately US$42,026,000 for the year while the Group recorded a gain of approximately US$3,094,000 last year. The significant loss was mainly due to the net losses in fair values of derivative financial instruments and warrants of approximately US$47,035,000 which comprised loss on initial recognition of convertible notes of approximately US$16,086,000 (2008: gain on initial recognition approximately US$182,000), net losses in fair value of embedded conversion option and early redemption option of convertible notes of approximately US$16,770,000 (2008: gain in fair value of approximately US$1,906,000) and net losses on fair value of warrants of approximately US$14,179,000 (2008: gain on fair value of approximately US$177,000).

Selling and distribution costs

The Group's selling and distribution costs from continuing and discontinued operations for the year slightly increased to approximately US$2,389,000 from approximately US$2,230,000 last year, representing an increase of approximately 7.13%.

Administrative expenses

The Group's administrative expenses from continuing and discontinued operations for the year increased to approximately US$7,686,000 from approximately US$5,341,000 last year, representing an increase of approximately 43.91%.

Impairment loss recognized in respect of intangible assets

During the year ended 31 December 2009, impairment losses of approximately US$1,956,000 and approximately US$53,000, have been recognised in respect of customer relationship and license, respectively, which are attributable to the food processing and distribution segment.

Finance costs

The Group's finance cost from continuing and discontinued operations for the year raised to approximately US$7,604,000 from approximately US$3,425,000 last year, representing an increase of approximately 122.01%. The significant increase was mainly due to the increase of interest expenses on the convertible notes.

Loss for the year and loss per share

The Group's loss for the year attributable to owners of the Company increased to approximately US$53,877,000 from approximately US$29,174,000 last year, representing an increase of approximately 84.67%. Basic loss per share from continuing and discontinued operations of the Group was significantly increased from approximately US0.29 cent for the year ended 31 December 2008 to approximately US0.41 cent for the year ended 31 December 2009. Meanwhile diluted loss per share was approximated US0.41 cent for the year ended 31 December 2009 and diluted loss per share was US0.29 cent for the last year. The computation of diluted loss per share for the year ended 31 December 2009 and 31 December 2008 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during both years. It does not assume the exercise of the Company's outstanding warrants and conversion of all convertible notes for the year ended 31 December 2009 since their exercise and conversion would result in a decrease in the loss per share. It does not assume the exercise of the Company's outstanding warrants and conversion of certain convertible notes for year ended 31 December 2008 since their exercise and conversion would result in a decrease in the loss per share.

Liquidity and capital resources

As at 31 December, 2009, the Group's cash and bank balances amounted to approximately US$30,633,000 (as at 31 December 2008: approximately US$8,882,000), representing an increase of approximately US$21,751,000. As at 31 December 2009, the bank and other borrowing amounted to approximately US$23,083,000 (as at 31 December 2008: approximately US$22,498,000).

During the year, net cash from operating activities was approximately US$2,003,000. The net cash from investing activities was approximately US$14,160,000, which was mainly due to deposits received from the proposed disposal of subsidiaries amounted approximately US$15,742,000. The net cash from financing activities was approximately US$5,677,000, which was mainly due to proceed from exercise of warrants amounted to US$3,552,000 and net proceeds from the issue of convertible notes of approximately US$25,290,000. As a result, the net increase in cash and cash equivalents during the year was US$21,840,000.

Exercise of warrants

On 6 August 2009, the subscription price under the terms of the warrants was adjusted downwards from HK$0.074 to HK$0.026 with effect from 6 August 2009 as a result of the proposed placing of the Fulbond Convertible Notes and the total number of warrants was adjusted to 4,269,230,769. Subsequent to the price adjustments, registered holders of 1,058,769,221 warrants exercised their rights to subscribe for 1,058,769,221 ordinary shares in the Company at HK$0.026 per share. The aggregate fair value of warrants exercised at the dates immediately before the exercise was approximately US$3,767,000.

Redemption of convertible notes

On 10 December 2009, Sun Boom Limited ("Sun Boom") and Wise Virtue Holdings Limited ("Wise Virtue") transferred (i) the convertible note in principal amount of US$3,700,000 issued by the Company on 9 April 2008 ("April Convertible Note"), (ii) the convertible note in principal amount of HK$121,000,000 issued by the Company on 30 May 2008 ("May SPA Convertible Note"), (iii) the convertible note in principal amount of HK$80,646,500 issued by the Company on 17 October 2008 ("Sun Boom Convertible Note") and (iv) the convertible note in principal amount of HK$80,265,260 issued by the Company on 17 October 2008 ("Wise Virtue Convertible Note") to a private investment institution independent to the Group.

On 29 December 2009, the conversion price of the April Convertible Note, May SPA Convertible Note, Sun Boom Convertible Note and Wise Virtue Convertible Note was adjusted from HK$0.086 to HK$0.047 per share. Subsequent to the adjustment, on 30 December 2009, the holders of the April Convertible Note, May SPA Convertible Note and Sun Boom Convertible Note have exercised their options to require the Company to redeem the convertible note at the principal amount of US$3,700,000, approximately US$15,613,000 and approximately US$3,954,000, respectively. An aggregate gain on early redemption of these convertible notes of approximately US$5,083,000 was recognised in profit or loss.

Issue of Fulbond Convertible Notes

On 6 August 2009, the Company announced that a Placing Agreement was entered into between the Company and the Placing Agent, whereby the Placing Agent has conditionally agreed to place, on a best efforts basis, zero coupon convertible notes in a maximum aggregate principal amount of HK$800,000,000 which are convertible into ordinary shares of the Company at a conversion price of HK$0.01 per share. Pursuant to the Placing Agreement, the Company and the Placing Agent agreed that the placing can be completed partially by a maximum of 8 tranches provided that the aggregate principal amount of the convertible notes to be issued by the Company for each partial completion shall not be less than HK$100,000,000 and in multiple of HK$5,000,000.

On 28 September 2009, the Company issued a circular in connection with the placing, whose proceeds will provide additional funding to the Group and redemption of existing convertible notes issued by the Company. The placing shall proceed in two tranches namely, the First Tranche Convertible Notes and the Second Tranche Convertible Notes. Both the First Tranche Convertible Notes (up to the aggregate principal amount of HK$450,000,000) and the Second Tranche Convertible Notes (up to the aggregate principal amount of HK$350,000,000) fall under the placing subject to and upon the terms and conditions under the Placing Agreement. On 22 December 2009, the Stock Exchange has, upon application by the Company, granted, on a conditional basis, the listing of and permission to deal in a maximum of 20,000,000,000 conversion shares in an aggregate sum of HK$200,000,000 at the initial conversion price of HK$0.01 per share.

The partial completion of the placing of the First Tranche Convertible Notes in the aggregate principal amount of HK$200,000,000 took place on 29 December 2009. The placing of the remaining First Tranche Convertible Notes in an aggregate principal amount of HK$250,000,000 was completed on 14 January 2010.

In view of its strong liquidity and financial position, we will have sufficient resources to fund the daily operations and capital expenditure commitments and potential investment.

Material disposal of subsidiaries

On 4 December 2009, the Group entered into an agreement with Sincerity Shine Holdings Limited ("Sincerity Shine"), being a party connected to the Group, to dispose all of its entire interests in Prowealth Holdings Group Limited ("Prowealth") and its subsidiaries, which carried out all of the Group's food processing and distribution operations. Sincerity Shine is beneficially owned as to 50% by Ms. Huang Yu Wei, being the spouse of Mr. Li Geng ("Mr. Li"). Mr. Li was a substantial shareholder of the Company before Mr. Li disposed of his entire interest in the Company on 4 December 2009. Mr. Li is also a director of Prowealth and has beneficial interest in Wise Virtue. Wise Virtue was one of the vendors of Prowealth when Prowealth was acquired by the Group in October 2008. The disposal was subsequently approved by the shareholders of the Company on 18 January 2010 and completed on 19 January 2010.

The net proceeds from the disposal is expected to be less than the net carrying amount of the relevant assets and liabilities. Accordingly an impairment loss of intangible assets of approximately US$2,009,000 has been charged to profit or loss in the consolidated statement of comprehensive income.

Material contingent liabilities

The Group was not aware of any material contingent liabilities as at 31 December 2009.

Capital structure

As at 31 December 2009, the Group's gearing ratio calculated on the basis of warrants, convertible notes, bank and other borrowings of approximately US$106,613,000 (as at 31 December 2008: approximately US$61,567,000) and total assets of approximately US$80,190,000 (as at 31 December 2008: approximately US$66,063,000), was approximately 57.1% (as at 31 December 2008: approximately 48.2%).

Subsequent to the price adjustments from HK$0.074 to HK$0.026 on 6 August 2009, registered holders of 1,058,769,221 warrants in November and December exercised their rights to subscribe for 1,058,769,221 ordinary shares in the Company at HK$0.026 per share. As at 31 December 2009, the number of the Company's issued shares was enlarged to 14,013,388,976 shares.

Pledge of assets

At the end of the reporting period, the Group had pledged certain property, plant and equipment and land use rights with aggregate carrying amounts of approximately US$10,588,000 (2008: approximately US$11,284,000) respectively to various banks and other financial institutions for securing the loans and general credit facilities granted to the Group.

Significant investments

As at 31 December 2009, there was no significant principal investment of the Group.

Foreign exchange exposure

The Group's assets, borrowings and major transactions are primarily denominated in Hong Kong dollars, RMB or US dollars. It mainly settles business expenses in the PRC with RMB remittance and income in RMB and US dollars. The Group does not hedged against foreign exchange risk associated with the US dollars, as the management believes that the HK dollars will remain pegged to the US dollars in the foreseeable future. It either has not used any financial instruments to hedge against bank borrowings in RMB. The management will from time to time manage and monitor closely to ensure measures are taken against any adverse impacts on the exchange risk associated with the appreciating RMB.

Human resources

The Group highly values its human resources and aims to attract, retain and develop high caliber individual committed to attaining our objectives. As at 31 December 2009, the Group had approximately 2,200 employees in HK and PRC. Employees of the Group are remunerated according to their qualifications, experience, job nature, performance and with reference to market conditions. Apart from discretionary performance bonus, the Group also provides other benefits such as medical insurance. The Company also operates a share option scheme for granting of options to eligible employees and Directors.

Future plans and prospects

Looking to 2010, economic and financial market indicators appeared to be supporting the general view that the worst of this economic crisis may be over and recovery is now on the way. In longer term, the Group has open-minded corporate culture, rich experience in business operations team to seize opportunities, facing various challenges, and achieve growth by leaps and bounds. Looking ahead, the Group will proactively foster its corporate development strategies, and create new value for shareholders. When the right time comes, further acquisitions and ongoing effective expansion will deliver excellent growth opportunity for enhancing shareholders' value in the foreseeable future.

Review of the year ended 31 December 2008 of the Group

Financial and business review

The revenue of the Group for the year was approximately US$36.3 million, increased around 51.1% as compared with the year 2007. Such increase was mainly contributed from the food processing and distribution business since the acquisition of Prowealth in October 2008 and this business operation has become our leading source of revenue.

The loss attributable to the equity holders of the Company for the year amounted to US$29.2 million, as compared to a loss of US$7.5 million in 2007. The loss per share for the year amounted to US0.29 cent (2007: loss per share at US0.08 cent). The loss for the year was mainly attributable from an impairment loss recognized in respect of property, plant and equipment and prepaid lease payments of approximately US$10.6 million and an impairment loss in respect of goodwill of approximately US$21.3 million related to the acquisition of the Prowealth. The impairment losses are set out as follows:

(a) During the year, the Directors conducted a review of the Group's property, plant and equipment and prepaid lease payments and determined that a number of those assets were impaired. Impairment losses of US$9,765,000 and US$854,000 respectively were recognised based on the recoverable amounts of property, plant and equipment and prepaid lease payments which were determined on the basis of their value in use. The carrying amounts of the property, plant and equipment and prepaid lease payments were reduced to the respective recoverable amounts.

(b) The Directors have reviewed goodwill on acquisition of Prowealth with indefinite useful lives for impairment loss. Goodwill amounting to US$21,340,000 has been allocated to cash generating units ("CGU") of food processing and distribution segment. The recoverable amount of CGU has been determined based on a value in use calculation which uses cash flow projections based on financial budgets covering a 5-year period, and discount rate of 20%. Cash flows beyond 5-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. In addition, other assumptions have been properly considered in the value in use calculation. To the extent that the carrying amount of any of the units exceed the recoverable amount of the unit, impairment loss has been allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. As at 31 December 2008, the Group has recognised impairment loss of US$21,340,000 in relation to goodwill arising on acquisition of Prowealth.

Liquidity and financial resources

As at 31 December 2008, the Group's cash and cash equivalents amounted to US$8,882,000 (as at 31 December 2007: US$6,888,000), representing an increase of US$1,994,000 or 29% as compared to the same corresponding period in 2007. During the year, net cash outflow from operating activities was US$460,000. The net cash inflow from financing activities was US$924,000, which was mainly due to proceed from the issue of convertible note during the year.

As at 31 December 2008, the Group's bank and other borrowings amounted to US$22,498,000 (as at 31 December 2007: US$10,844,000). The Group's bank and other borrowings from banks and other financial institutions carry interests at fixed rates ranging from 6.66% to 7.47% per annum (2007: 5.58% to 7.29% per annum). According to the corporate restructuring of the Company and its subsidiaries, the creditors of the Group received three-year loan notes from the Company with an aggregate face value of US$4,400,000 which carry fixed interest at a rate of 7% per annum. The three-year loan notes are repayable in six equal semi-annual installments. The repayment of the remaining outstanding installment of the loan notes amounted to US$455,000 has been extended to March 2010. Other borrowings represent interest-free borrowings of US$305,000 in 2007. Individual operating entities within the Group are responsible for their own cash management, including raising of loans to cover expected cash demands, subject to approval by the Board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its short and long term liquidity requirements. The Group had net current liabilities of US$27,928,000 and net liabilities of US$11,679,000 as at 31 December 2008. The Directors have obtained financial support from the single largest shareholder of the Company to assist the Group to meet its financial obligations as they fall due in the foreseeable future. In addition, provided that the Group can continue to successfully refinance its bank borrowings, the Directors consider that the Group's liquidity risk is significantly reduced.

Finance costs

The increase in finance costs of approximately HK$2.5 million, from HK$0.9 million in year 2007 to HK$3.4 million in Year 2008, was mainly attributable to the effective interest expenses on convertible notes issued during the year.

Capital structure

The capital structure of the Group consisted of debt, which included the loan borrowings, bank balances and cash and equity attributable to equity holders of the Company, comprising issued share capital and reserves. The Directors reviewed the capital structure regularly and considered the cost of capital and the risks associated with each class of capital. The Directors would balance its overall capital structure through the issue of new shares as well as issue of new debt or the redemption of existing debt.

During the year ended 31 December 2008, the Company issued 3,756,840,000 shares to Wise Virtue as consideration shares for the acquisition of Prowealth. As at 31 December 2008, the number of the Company's issued shares was enlarged to 12,954,619,755 shares.

As at 31 December 2008, the Group's gearing ratio calculated on the basis of warrants, convertible notes, bank and other borrowings of approximately US$61,567,000 (as at 31 December 2007: approximately US$10,844,000) and total assets of approximately US$66,063,000 (as at 31 December 2007: approximately US$31,336,000), was approximately 48.2% (as at 31 December 2007: approximately 25.7%).

Exposure to fluctuations in exchange rates and any related hedges

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars, RMB or US dollars. The Group's major investment and financing strategies are to invest in domestic projects in the PRC by Hong Kong dollars and RMB borrowings. As RMB appreciation is expected to continue in the foreseeable future and the Group's operating income is substantially denominated in RMB, the Group did not perform any foreign currency hedging activities during the year. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US dollars and Hong Kong dollars exchange rate movement.

Pledge of assets

As at 31 December 2008, the Group had pledged certain property, plant and equipment and land use rights with aggregate carrying amounts of US$11,284,000 (2007: US$5,449,000) to various banks and other financial institutions for securing the loans and general credit facilities granted to the Group.

Significant investments

As at 31 December 2008, there was no significant principal investment of the Group.

Acquisition of seafood trading and processing business

On 22 February 2008 and 27 February 2008, Fulbond Investments Limited, a wholly-owned subsidiary of the Company ("Fulbond Investments") entered into the agreement and the supplemental deed with, among others, Sun Boom, being the vendor, pursuant to which Fulbond Investments conditionally agreed to purchase and Sun Boom conditionally agreed to sell the 20% of the entire enlarged issued share capital of Prowealth, a company and its subsidiaries of which were engaged in seafood trading and seafood processing business in the PRC. The total consideration of the acquisition was HK$121,000,000 to be satisfied by way of issue of the secured convertible note with an aggregate principal amount of HK$121,000,000 due on demand. Details of the acquisition are set out in the circular of the Company dated 22 April 2008.

On 28 May 2008, the Company as issuer, Fulbond Investments as purchaser and Sun Boom and Wise Virtue as vendors entered into an agreement for the sale and purchase of the remaining issued shares in Prowealth, which in aggregate with the shares in Prowealth purchased under the aforementioned agreement dated 22 February 2008 constituting the entire issued share capital of Prowealth. The total consideration for the acquisition was HK$484,000,000 to be satisfied by the issue of consideration shares, the Sun Boom Convertible Note and the Wise Virtue Convertible Note. Details of the acquisition are set out in the circular of the Company dated 30 June 2008.

Contingent liabilities

During the year ended 31 December 2007, Jilin Province Fuchun Timber Co., Ltd. ("Jilin Fuchun") had ceased its operation. Jilin Fuchun had laid off its employees and exposed to a maximum compensation payment of RMB7,307,000 (equivalent to US$1,013,000) based on the management's estimation and the relevant provisions of the PRC employment laws. The Group had recognised such liability of US$1,013,000 by charging the amount as an expense to the consolidated statement of comprehensive income for the year ended 31 December 2007. During the year ended 31 December 2008, the Group had settled all compensation payments to the employees of Jilin Fuchun. The Group had no significant contingent liabilities at 31 December 2008.

Employees and remuneration policies

As at 31 December 2008, the Group employed 2,100 full time management, administrative and production staff in the PRC and Hong Kong. The Group recruits and promotes individuals based on their performance and development potential in the positions held. Remuneration package is determined with reference to an employee's performance and the prevailing salary levels in the market. In addition, the Group adopts a share option scheme for eligible employees (including Directors) to provide incentives to participants for their contributions and continuing efforts to promote the interests of the Group.

Future plans and prospects

In the midst of the financial crisis spread out in 2008, the global economy had not been bottomed out and showed no sign of turning up. In the gloomy winter when recovery was yet to be expected, the wooden products markets were in downturn, both in prices and trade volumes. Whilst maintaining a positive attitude towards the prospect, the Group remained conservative in its development plans and would closely manage its implementation of the restructuring of management and business operation to keep a progressive pace in the challenging and dynamic environment.

Review of the year ended 31 December 2007 of the Group

Financial and business review

Turnover of the Group for the year ended 31 December 2007 was approximately US$24,016,000, representing a decrease of 8.7% from approximately US$26,308,000 in last year. The decrease was mainly caused by the decrease in turnover of particle board and the ceasing of the manufacturing and trading business of blockboard, plywood-based products, decoration wooden products and other wooden products in Wu Chan Qu, Wuhan City. The loss of the Group for the year ended 31 December 2007 had increased to approximately US$8,766,000, representing an increase of approximately 5.7% as compared to the previous year. Such loss was owing to the increase in selling and distribution costs, which reflects the challenging operating environment of the Group of rising production costs and high competition in the timber industry. The basic loss per share was US0.08 cent (2006: US0.08 cent).

Liquidity and financial resources

As at 31 December 2007, the equity attributable to equity holders of the Group was approximately US$6,508,000 (2006: US$8,957,000). Total bank and other borrowings as at 31 December 2007 was approximately US$10,844,000 (2006: US$11,674,000), consisted of secured bank loans and other financial institutions of approximately US$9,464,000, unsecured three-year loan notes of approximately US$1,075,000 and unsecured other borrowings of US$305,000.

The sale and purchases of the raw materials were mainly denominated in RMB and united states dollars. The Group was exposed to fair value interest rate risk in relation to fixed-rate bank and other loans, fixed-rate short term bank deposits, and a three year loan note. The Group would continue to monitor foreign exchange exposure and would consider hedging significant foreign currency exposure if it needed.

As at 31 December 2007, the bank balances and cash of the Group was approximately US$6,888,000 (2006: US$3,661,000). The bank balances and cash comprise cash and short-term bank deposits with original maturity of three months or less, and carry interest ranging from 0.57% to 2.4% per annum.

As at 31 December 2007, the Group's gearing ratio calculated on the basis of warrants, convertible notes, bank and other borrowings of approximately US$10,844,000 and total assets of approximately US$31,336,000 was approximately 25.7%.

Finance costs

Finance costs increased by 3.6% to approximately US$915,000 (2006: US$883,000) as a result of increase in interest rate on borrowings from banks and other financial institutions during the year.

Pledge of assets

At 31 December 2007, the Group had pledged certain properties and plant and equipment with carrying amounts of US$5,449,000 (2006: US$8,150,000) to various banks and other financial institutions for securing loans and credit facilities granted to the Group.

Capital structure

The capital structure of the Group consisted of debt, which included the loan borrowings, bank balances and cash and equity attributable to equity holders of the Company, comprising issued share capital and reserves. The Directors reviewed the capital structure regularly and considered the cost of capital and the risks associated with each class of capital. The Directors would balance its overall capital structure through the issue of new shares as well as issue of new debt or the redemption of existing debt.

Contingent liabilities

During the year ended 31 December 2007, Jilin Fuchun had ceased its operation. Jilin Fuchun shall lay off its employees and expose to a maximum compensation payment of approximately RMB7,307,000 (equivalent to approximately US$1,013,000) based on management's estimation and relevant provisions of the PRC employment laws. The Group had recognised such liability of approximately US$1,013,000 by charging the amount as an expense to the consolidated income statement for the year ended 31 December 2007. Subsequent to 31 December 2007, the Group had made compensation payments to certain employees of Jilin Fuchun amounted to approximately RMB666,000 (equivalent to approximately US$92,000).

Employees and remuneration

As at 31 December 2007, the Group employed 800 full time management, administrative and production staff in the PRC and Hong Kong. Total staff costs including Directors' emoluments incurred during the year, amounted to US$7,231,000 (2006: US$1,651,000). The increase in staff costs was mainly due to the compensation payments made by the Group to certain employees of Jilin Fuchun and recognised a maximum compensation payment of RMB7,307,000 (equivalent to US$1,013,000) by charging the amount as an expense to the consolidated income statement for the year ended 31 December 2007.

Employees were remunerated according to the basis of their merit, qualifications and competence. The emoluments of the Directors were determined with reference to their duties, responsibilities and contribution to the Company, the prevailing market conditions, time commitment and desirability of performance-based remuneration. During the year, the Company granted share options to the Directors and the employees.

Disposals of associated companies and fixed assets

On 20 March 2007, the Company entered into the sale and purchase agreement with Silverplus Investment Limited ("Silverplus") pursuant to which Silverplus agreed to acquire and the Company agreed to dispose of the equity interests in Fulhua Microelectronics Corporation ("Fulhua"), representing approximately 31.73% of the equity interests in Fulhua at a consideration of US$340,000 (approximately HK$2,652,000). Upon completion of the disposal, Fulhua ceased to be an associated company of the Company. Details of the disposal are set out in the circular of the Company date 2 April 2007.

On 13 September 2007, Ta Fu Timber Company Limited ("Ta Fu"), a wholly-owned subsidiary of the Company, and Hubei Timber Group Company Limited ("Hubei Timber") entered into an agreement pursuant to which Hubei Timber agreed to acquire and Ta Fu Timber agreed to dispose a 48% interest in Hubei Fuhan Timber Company Limited ("Hubei Fuhan") at a consideration of RMB2,000,000 (approximately HK$2,060,000). Upon completion of the disposal, Hubei Fuhan ceased to be an associated company of the Company. Details of the disposal are set out in the circular of the Company dated 15 October 2007.

On 19 December 2007, Jilin Fuchun, an indirect 55% owned subsidiary of the Company, entered into the settlement agreement with Jilin Forest Industrial Group Limited ("Jilin Forest"), whereby Jilin Fuchun agreed to transfer certain lands and buildings and machineries and equipments to Jilin Forest in order to settle the outstanding loan amount with accrued interests due to Jilin Forest of RMB9,200,000. The settlement agreement constitutes a discloseable transaction, details of which were disclosed in the Company's circular dated 21 January 2008.

Share capital

Subsequent to the financial year ended 31 December 2007, the Company issued and placed 1,500,000,000 unlisted warrants to not less than six independent placees on 21 January 2008. The Company will rise approximately HK$111,000,000 and the net proceeds will be utilised as general working capital of the Group and future development of the existing businesses of the Group. Details of the placing are set out in the announcement of the Company dated 27 December 2007.

Further, the Company entered into the subscription agreement with an independent third party, Sun Boom in relation to the subscription of the convertible note with an aggregate principal amount of US$3,700,000. The net proceeds from the issue of the convertible note of approximately HK$26,680,000 will be utilised as general working capital of the Group and/or any suitable investment(s).

As at 31 December 2007, the Company had 9,197,779,755 shares in issue with total shareholders' fund of the Group amounted to approximately US$6,508,000.

Significant investments

As at 31 December 2007, there was no significant principal investment of the Group.

Future plans and prospects

The Board believed that the Group would be able to broaden its source of income by diversifying its timber business in both the USA and the PRC and improve the profitability by broadening its business scope. Looking forward, the Group would continue to strengthen its financial situation and expand its revenue base. On the other hand, the Group would continue to reengineer the business operations and turn around our business through implementation of the restructuring of management and business operations. To improve efficiency and productivity, the management would continue to implement the cost control measures and consolidation of the Group's resources and capture every good opportunity in all old and new businesses. The Group would also strive to enhance the shareholder's value through identify various and feasible business opportunities.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

(I) The following is a discussion and analysis on the Target Company for the period from 12 April 2007 (being the date of incorporation) to 31 December 2009

The Target Company

For the period from 12 April 2007 (being the date of incorporation) to 31 December 2009, the Target Company, which was incorporated in the British Virgin Islands with limited liability, was remained inactive since its incorporation.

Liquidity and Financial Resources
For the period 12 April 2007 (being the date of incorporation) to 31 December 2009

As at 31 December 2009, the Target Company had total assets of approximately US$1.28 million and total liabilities of approximately US$1.28 million. The Target Company did not have any bank borrowings as at 31 December 2009 and therefore its gearing ratio was nil as at 31 December 2009 based on the bank borrowings compared to total assets.

Capital structure
For the period 12 April 2007 (being the date of incorporation) to 31 December 2009

As at 31 December 2009, the Target Company was financed by borrowings from its shareholder only, which amounted to approximately US$1.28 million.

(II) The following is a discussion and analysis on Xi'an Yuansheng for the three years ended 31 December 2009

Xi'an Yuansheng

Business review for the three years from 1 January 2007 to 31 December 2009

For the year ended 31 December 2007, Xi'an Yuansheng, which was incorporated in the PRC with limited liability, changed its principal business activities to property development in PRC. No income had been derived from the principal activities during the three years since Xi'an Yuansheng was still in its preliminary stage in the development project.

Xi'an Yuansheng acquired a piece of land situated in Xi'an, the PRC, during the year ended 31 December 2008 as valued by an independent valuer at approximately US$4.31 million.

Operations review for the three years from 1 January 2007 to 31 December 2009

Liquidity and Financial Resources

For the year ended 31 December 2007

As at 31 December 2007, Xi'an Yuansheng had total assets of approximately US$3.49 million and total liabilities of approximately US$4.15 million. Xi'an Yuansheng had bank borrowings of approximately US$0.68 million as at 31 December 2007 and therefore its gearing ratio was 19.48% as at 31 December 2007 based on the bank borrowings compared to total assets.

For the year ended 31 December 2008

As at 31 December 2008, Xi'an Yuansheng had total assets of approximately US$13.45 million and total liabilities of approximately US$14.48 million. Xi'an Yuansheng had bank borrowings of approximately US$0.72 million as at 31 December 2008 and its gearing ratio was approximately 5.35% as at 31 December 2008 based on the bank borrowings compared to total assets.

For the year ended 31 December 2009

As at 31 December 2009, Xi'an Yuansheng had total assets of approximately US$13.33 million and total liabilities of approximately US$15.26 million. Xi'an Yuansheng had bank borrowings of approximately US$0.72 million as at 31 December 2009 and its gearing ratio was approximately 5.4% as at 31 December 2009 based on the bank borrowings compared to total assets.

Capital structure

For the year ended 31 December 2007

As at 31 December 2007, Xi'an Yuansheng was financed by borrowings from related companies and bank, which amounted to approximately US$3.47 million and approximately US$0.68 million respectively.

For the year ended 31 December 2008

As at 31 December 2008, Xi'an Yuansheng was mainly financed by borrowings from related companies and bank, which amounted to approximately US$13.75 million and approximately US$0.72 million respectively.

For the year ended 31 December 2009

As at 31 December 2009, Xi'an Yuansheng was mainly financed by borrowings from related companies and bank, which amounted to approximately US$14.46 million and approximately US$0.72 million respectively.

Pledge of Assets and Contingent Liabilities

For the year ended 31 December 2007

As at 31 December 2007, Xi'an Yuansheng did not have any significant contingent liabilities.

For the two years ended 31 December 2008 and 2009

As at 31 December 2008 and 31 December 2009, land use rights with carrying value of approximately US$4.31 million included in the properties under development was pledged for securing bank borrowings raised by Xi'an Yuansheng.

During the year ended 31 December 2009, Xi'an Yuansheng has provided financial guarantee and pledged its land use rights with carrying value of US$4.31 million for bank loans in aggregate amount of approximately US$11.31 million raised by certain related companies.

As one of the Conditions Precedent, the Land Charge and the financial guarantees provided by Xi'an Yuansheng as mentioned above will be discharged and released prior to Acquisition Completion and Xi'an Yuansheng shall have no liabilities on Acquisition Completion save and except for the Shareholder's Loan.

Impairment loss

At the end of each reporting period, Xi'an Yuansheng reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

At 31 December 2008, the directors of Xi'an Yuansheng conducted a review of Xi'an Yuansheng's plant and equipment and determined that a number of those assets were specifically identified to be physically worn out or damaged. These assets were identified to have no commercial value. Accordingly, an impairment loss of US$119,009 had been recognised in the accounts of Xi'an Yuansheng for the year ended 31 December 2008.

At 31 December 2008, the directors of Xi'an Yuansheng reviewed the carrying amounts of its assets and determined that recoverable amounts of certain prepayments and other receivables were estimated to be less than their carrying amounts. Therefore an impairment loss of US$176,236 had been recognised as an expense in the accounts of Xi'an Yuansheng in the year 2008.

Employees and remuneration

Throughout the three years ended 31 December 2009, Xi'an Yuansheng had employed not more than 10 full time staff in the PRC. Remuneration of these employees was determined based on their merit, qualifications and competence.

3. STATEMENT OF INDEBTEDNESS

At the close of business on 30 April 2010, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding borrowings of approximately US$65.5 million. The borrowings comprised (i) bank loans of the Enlarged Group of approximately US$10.1 million secured by property, plant and equipment and land use rights of the Enlarged Group; (ii) other unsecured borrowings of the Enlarged Group of approximately US$0.5 million; (iii) unsecured convertible notes issued by the Enlarged Group in aggregate principle amount of approximately US$45.2 million; (iv) obligations under finance lease of approximately US$0.03 million; and (v) amounts due to related parties of the Enlarged Group of approximately US$9.7 million which are unsecured and interest-free. At 30 April 2010, the Enlarged Group also had financial guarantees provided to companies in which the former shareholder and director of Xian Yuansheng had controlling equity interests, for bank loans of aggregate principal amount of approximately US$11.3 million and pledged the Land against these bank loans.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding at the close of business on 30 April 2010 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

4. WORKING CAPITAL

The Directors are of the opinion that taking into account (i) the Enlarged Group's internal resources; (ii) the presently available banking and other facilities; (iii) the payment of the consideration in connection to the Acquisition; (iv) the settlement of, except for the Shareholder's Loan, all outstanding loans, debts, liabilities or other financial facilities outstanding or available to the Target Group prior to the completion of the Acquisition; and (v) the proceed from the completion of the proposed issuance of the Second Tranche Convertible Notes, and in the absence of unforeseen circumstances, the Enlarged Group will have sufficient working capital for a period of 12 months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECTS

The Company is principally engaged in the business of manufacturing and sale of wooden products, such as door skins and particle board products.

In the past few years, the business environment of wooden products remained unfavourable with the appreciation in value of RMB and the rise in raw materials and labour costs. Furthermore the deteriorated demand in the USA also hammered the performance of the Group.

During this difficult period for the Group's principal business, the Group will continue to implement cost control measures and penetrate timber products to overseas emerging markets in order to broaden its market base.

On the other hand, in view of the growing demand for real estate properties in PRC, the Group is optimistic about the growth prospects of property development in PRC. The Directors believe it is an appropriate time to tap into the property development market. As mentioned under the section headed "REASONS FOR AND BENEFIT OF THE ACQUISITION" in the Letter from the Board, upon Completion, the Acquisition will enable the Group to diversify its business to the property development sector which is expected to provide positive contributions to the operation of the Group in the long run.

The Enlarged Group will continue its existing principal business of the Group and will look for investment opportunities to enhance shareholders' value in the foreseeable future.

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 30 April 2010 of the properties held by the Enlarged Group.

Asset Appraisal Limited
資產評值顧問有限公司

Room 802, 8/F, On Hong Commercial Building
145 Hennessy Road, Wanchai, Hong Kong
香港灣仔軒尼詩道145號
安康商業大廈8字樓802室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

28 June 2010

The Board of Directors
Fulbond Holdings Ltd.
Unit 2807 28/F
The Center
No. 99 Queen's Road Central
Central Hong Kong.

Dear Sirs,

Re: Valuation of Properties situated in the People's Republic of China and in Hong Kong

In accordance with the instructions from **Fulbond Holdings Ltd.** (the "**Company**") to value the property interests (the "**Properties**") held by the Company, Xian Yuan Sheng Enterprise Co., Ltd. (西安遠聲實業有限公司, the "**Target Company**") or their subsidiaries (altogether referred to as the "**Enlarged Group**"), we confirm that we have inspected the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at **30 April 2010** (the "**valuation date**").

BASIS OF VALUATION

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

TITLESHIP

We have been provided with copies of legal documents regarding the Properties. However, we have not verified ownership of the Properties and the existence of any encumbrances that would affect its ownership.

We have also relied upon the legal opinion provided by the PRC legal advisers, namely Commerce & Finance Law Offices (通商律師事務所) and Fujian Dazhong Law Firm (福建大中律師事務所) (the "**PRC Legal Opinion**"), to the Company on the relevant laws and regulations in the PRC, on the nature of the owner's land use rights in the property situated in the PRC. Its material content has been summarized in the valuation certificate attached herewith.

VALUATION METHODOLOGY

The property interests in Group I, which are property interests owned by the Enlarged Group for future development, have been valued by the comparison method where comparison based on price information of comparable properties. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

We have attributed no commercial value to the property interests in Groups II, which are properties rented by the Enlarged Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the fact that the duration and amount of profit rents cannot be ascertained.

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the properties in Group I on the market with the benefit of vacant possession but without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the values of the properties.

As the property interests in Group I are held by the owners by means of long term Land Use Rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term of the land use rights.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages, land idling penalties or amounts owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, tenancy and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site and floor areas in respect of the Properties but have assumed that the site and floor areas shown on the documents and official site plans or floor plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the buildings and structures of the Properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We must point out that we have not carried out site investigations to determine the suitability of the ground conditions or the services for the development site of the Properties. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. 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 properties, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1st January 2005.

All monetary sums stated in this report are in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited

Sandra Lau
MFin MHKIS AAPI RPS(GP)
Director

Sandra Lau is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. She is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

	Property	Market value in existing state as at 30 April 2010	Interest Attributable to the Company	Value of property interest attributable to the Company as at 30 April 2010
Group I – Property Interests owned by the Enlarged Group for future development				
1.	Two parcels of land situated at the north of Sheung Ji Road Weiyang District Xian City Shanxxi Province the PRC	RMB470,000,000	100%	RMB470,000,000
2.	Development Site in Minying Science and Technology Industrial Park Shuidong Town Dianbai County Maoming City Guangdong Province the PRC	RMB4,400,000	100%	RMB4,400,000
	Sub-total:	**RMB474,400,000**		**RMB474,400,000**
Group II – Properties rented by the Enlarged Group				
3.	Unit 2807 on 28th Floor The Center No. 99 Queen's Road Central Central Hong Kong	No commercial value	100%	No commercial value
4.	Land, various buildings and structure of Jilin Fudun Timber Co., Ltd. No. 6 Tiedong Alley Bohai Street Dunhua Development Area Dunhua City Jilin Province the PRC	No commercial value	100%	No commercial value
	Grand Total:	**RMB474,400,000**		**RMB474,400,000**

VALUATION CERTIFICATE

Group I – Property Interests owned by the Enlarged Group for future development

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2010 *RMB*
1.	Two parcels of land situated at the north of Sheung Ji Road Weiyang District Xian City Shanxxi Province the PRC Lot Nos. WY6-5-1-1 and WY6-5-1-3	The property comprises two parcels of contiguous land which are currently bare and vacant sites. One of the land parcels Lot No. WY6-5-1-1 is designated for commercial uses with an area of 19,739.20 square metres. The other land parcels Lot No. WY6-5-1-3 is designated for residential uses with an area of 134,356.70 square metres. According to two Stated-owned Land Use Right Certificates, the land use rights of Lot No. WY6-5-1-1 and WY6-5-1-3 have been granted for terms expiring on 31 January 2048 and 31 January 2078 respectively.	The property is currently vacant.	470,000,000

Notes:

1. As revealed by a State-owned Land Use Right Certificate (Ref: Xi Wei Gao Yong (2009Chu) No. 12 西未國用(2009)出第 012號) issued by the Municipal Government of Xian City on 15 January 2009, the land use rights in Lot No. WY6-5-1-1 with an area of 19,739.2 square metres are held by Xian Yuan Sheng Enterprise Co. Ltd. (西安遠聲實業有限公司, the "Target Company") for a term expiring on 31 January 2048 for commercial use.

2. As revealed by another State-owned Land Use Right Certificate (Ref: Xi Wei Gao Yong (2009Chu) No. 11 西未國用(2009)出第 011號) issued by the Municipal Government of Xian City on 15 January 2009, the land use rights in Lot No. WY6-5-1-3 with an area of 134,356.7 square metres are held by Xian Yuan Sheng Enterprise Co. Ltd. (西安遠聲實業有限公司, the "Target Company") for a term expiring on 31 January 2078 for residential use.

3. By virtue of a capital injection agreement dated 28 September 2005, the property was acquired by the Target Company at a consideration of RMB25.0314 million. As confirmed by the Target Company, a total sum of approximately RMB78.99 million (including land grant premium, land use modification premium and costs for project design) has expended to the property.

4. As revealed from a Land Use Right Granting Modification Agreement (Ref. No. 18233-1) and its supplemental agreement (Ref. No. 18233-2) both entered into between the Land Resources Administration Bureau of Xian City and the Target Company on 1 February 2008, Lot No. WY6-5-1-3 of the property is subject to the following material development conditions:

Site Area	:	134,356.8 square metres
Land Use	:	Residential
Plot Ratio	:	3.23x
Site Coverage	:	15.9%
Greenery Rate	:	38%
Work Start	:	30 December 2008 or before (extendable for not more than 1 year upon 30 day prior application)

Work Completion	:	not later than 31 December 2010 (subject to adjustment based on the approved deferred work start date)
Land Idling Penalty	:	RMB7,523,980 per annum

5. As revealed from a Land Use Right Granting Modification Agreement (Ref. No. 18233-3) and its supplemental agreement (Ref. No. 18233-4) both entered into between the Land Resources Administration Bureau of Xian City and the Target Company on 1 February 2008, Lot No. WY6-5-1-1 of the property is subject to the following material development conditions:

Site Area	:	19,739.3 square metres
Land Use	:	Commercial
Plot Ratio	:	4.55x
Site Coverage	:	15.9%
Greenery Rate	:	38%
Work Start	:	30 December 2008 or before (extendable for not more than 1 year upon 30 day prior application)
Work Completion	:	not later than 31 December 2010 (subject to adjustment based on the approved deferred work start date)
Land Idling Penalty	:	RMB1,255,419 per annum

6. The PRC Legal Opinion on the property is summarized as follows:

6.1 One of the two land parcels of the property with an area of 134,356.7 square metres is held by Xian Yuan Sheng Enterprise Co. Ltd. (西安遠聲實業有限公司, the "Target Company") for residential use for a term expiring on 31 January 2078. A Land Use Right Certifcate (Ref. Xi Wei Gao Yong (2009 Chu) No.11) was issued in the name of the Target Company by the Municipal Government of Xian on 15 January 2009.

6.2 The other land parcel of the property with an area of 19,739.2 square metres is held by Xian Yuan Sheng Enterprise Co. Ltd. (西安遠聲實業有限公司, the "Target Company") for commercial use for a term expiring on 31 January 2048. A Land Use Right Certificate (Ref. Xi Wei Gao Yong (2009 Chu) No. 12) was issued in the name of the Target Company by the Municipal Government of Xian on 15 January 2009.

6.3 According to two payment receipts (Nos. SZ0001057 and SZ0001058) both dated 2 February 2008, land premium (in relation to land use right acquisition and land use modification) has been settled in full.

6.4 By virtue of a loan agreement dated 27 February 2009 entered into among Xian Commercial Bank Xin Cheng Branch (西安市商業銀行新城支行) as lender, Xian Xinrong Technology Industry (Group) Co., Ltd. (西安欣融科技實業 (集團)有限公司, a related company of the Target Company) as borrower and the Target Company as the guarantor of the borrower, a land charge has been created over the property as security for the repayment of a loan of RMB51 million forwarded to the borrower.

6.5 By virtue of a guarantee agreement dated 14 September 2009, the property have been pledged to Xian Commercial Bank Xin Cheng Branch (西安市商業銀行新城支行) for a loan of RMB23.5 million forward to Xian Kingtone Information Technology Holdings Co., Ltd. (西安聯合信息技術股份有限公司, a related company of the Target Company). The loan is maturing on 27 September 2010.

6.6 The Target Company has agreed with the Land Resources Administration Bureau to commence construction work of the property on or before 30 December 2008 and to complete the construction works by 31 December 2010. From point of law, the Land Resources Administration Bureau is entitled to charge from the Target Company land idling penalties, penalties for breach of building covenant and even resume the land use rights of the property. However, the delay in the work commencement and work completion are due to the deferral of planning approval of the Government. Having such regards, in the absence of any violation in the part of the Target Company, it shall continue to be entitled to the land use rights in the property free from any administrative punishment and penalty on breach of contract and shall have no legal impediment to obtain or renew relevant planning permits for the subject development.

6.7 The Target Company has confirmed that it has not received from the Government any demand note on land idling charge or penalty on delay in work commencement and work completion.

7. Based on the legal opinion as mentioned in note 6.6 above, there is no adverse impact on the value of the property arising from the breach of building covenant as mentioned in note 6.6 above.

VALUATION CERTIFICATE

Group I – Property Interests owned by the Enlarged Group for future development

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2010 *RMB*
2.	Development Site in Minying Science and Technology Industrial Park Shuidong Town Dianbai County Maoming City Guangdong Province the PRC Lot No. 0606035	The property comprises a parcel of land with an area of 16,593.75 square metres on which a 2-storey industrial building and a 3-storey warehouse building are planned to be built. According to the development scheme provided by the Company, the proposed development will provide a total gross floor area of 40,773.46 square metres upon completion. As confirmed by the Company, the proposed development scheme has not obtained any approval from the government. According to the Land Use Right Certificate, the land use rights of the subject land parcel have been granted for a term expiring on 13 April 2055.	The property is currently vacant.	4,400,000

Notes:

1. Pursuant to the Land Use Rights Transfer Contract issued on 25 March 2008, the land use rights in the property were acquired by Maoming Jia Xing Foods Co., Ltd. (茂名嘉興食品有限公司), a wholly-owned subsidiary of the Company, at a consideration of RMB4,782,000. As confirmed by the Company, the aforesaid purchase price has been fully settled.

2. A Land Use Rights Certificate (Ref. No. Dian Guo Yong (2008) Di00524) dated 20 May 2008 in relation to the subject land parcel namely lot no. 0606035 was issued in the name of Maoming Jia Xing Foods Co., Ltd.. As mentioned in the Land Use Rights Certificate, the land use rights of the subject land parcels have been granted for a term expiring on 13 April 2055 for industrial uses.

3. As confirmed by the Company, the property has not obtained any planning approval and development scheme from the government.

4. The PRC Legal Opinion on the property is summarized as follows:

   4.1 Maoming Jia Xing Food legally owns the land use rights of the subject land parcel and it can transfer, lease or mortgage the land use rights subject to proper procedures as enacted in the PRC law; and

   4.2 As at the date of the PRC Legal Opinion, the land use rights were not encumbered with mortgage, seizure, administrative and judiciary custody and other mandatory actions.

VALUATION CERTIFICATE

Group II – Properties Rented by the Enlarged Group

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2010 *RMB*
3.	Unit 2807 on 28th Floor The Center No. 99 Queen's Road Central Central Hong Kong	The property comprises an office unit on 28th Floor within a 73-storey commercial building completed in 1998. The gross floor area of the property is approximately 2,487 square feet. The subject land parcel is held by the Enlarged Group under leasehold interest for a term of 1 year commencing from 1 April 2010 to 31 March 2011at a monthly rent of HK$99,500 (exclusive of rates, ground rent, management charges, air-conditioning charges and other charges) for office use.	The property is currently occupied by the Company as offices.	No Commercial Value

Notes:

1. The registered owner of the property is Land Development Corporation ("LDC").

2. Pursuant to a tenancy agreement dated 15 April 2010, the property is rented from The Center (28) Limited to Fulbond Corporate Management Limited (a wholly-owned subsidiary of the Company) for a term of 1 year expiring commencing from 1 April 2010 to 31 March 2011 at a monthly rent of HK$99,500 (exclusive of rates, ground rent, management charges, air-conditioning charges and other charges) for office use.

3. As stated in the tenancy above, the LDC as vendor was agreed to sell the property to The Center (28) Limited according to an Agreement for Sale and Purchase ("ASP") dated 27 November 1998, The Center (28) Limited has already paid the full purchase price of the property accordingly. However, LDC is holding the property as bare trustee for The Center (28) Limited. LDC was dissolved in 1 May 2001. By virtue of Urban Renewal Authority Ordinance Cap 563 of the Laws of Hong Kong, all immovable property owned by LDC as on 1 May 2001 is now owned by the Urban Renewal Authority ("URA") and every contract entered into by LDC which was in force immediately before 1 May 2001 has effect as if URA is substituted for LDC.

VALUATION CERTIFICATE

Group II – Properties Rented by the Enlarged Group

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2010 *RMB*
4.	Land, various buildings and structure of Jilin Fudun Timber Co., Ltd. No. 6 Tiedong Alley Bohai Street Dunhua Development Area Dunhua City Jilin Province the PRC	The property comprises a parcel of land with an area of about 200,937.6 square metres on which various buildings and structures are erected. They were completed in between 1996 and 1998. The total gross floor area of the aforesaid buildings and structures is 29,974.5 square metres. The subject land parcel is held by the Enlarged Group under leasehold interest for unspecified term at a current annual land rental of RMB60,000.	The property is currently occupied by the Enlarged Group for manufacturing of particle board, door skin and high density fibre board.	No Commercial Value

Notes:

1. As stipulated in the Land Use Rights Certificate (Ref. No. Dun Guo Yong 2001 Zhi Di 030394) dated 3 February 2001 and endorsed by the Land Administration Bureau of Dunhua City, the leasehold interest in the property is held by Jilin Fudun Timber Co., Ltd. (吉林福敦木業有限公司), a 67%-owned subsidiary of the Company, for industrial purpose for an unspecified term.

2. As stipulated in 10 sets of Building Ownership Certificate (Ref. Nos. Dun Fang Quan Zhen Cheng Zhi Di 0013886 to 0013894 and 0061832) all dated 16 April 2001, the subject buildings of the property with a total gross floor area of 29,974.51 square metres are held by Jilin Fudun Timber Co., Ltd. (吉林福敦木業有限公司).

3. As the subject land parcel is held by the Enlarged Group under leasehold interest for an unspecified term, we have ascribed no commercial value to the Enlarged Group's interests in the subject land. As far as the subject buildings are concerned, they are all attached to the leasehold land and shall be returned to the landlord when the land is reverted to the landlord upon termination of the leasehold interest. Therefore, we have also ascribed no commercial value to the subject buildings in our valuation.

4. The land use rights in the property and 10 buildings of the property are subject to a mortgage in favour of the Agricultural Bank of China – Dunhua Branch (中國農業銀行敦化支行) and the mortgage registration has been completed.

5. The PRC Legal Opinion on the property is summarized as follows:

   5.1 the leasehold land use rights in the subject land parcel namely lot no. 58-05-21 with an area of 200,937.6 square metres of the property are held by Jilin Fudun Timber Co., Ltd. (吉林福敦木業有限公司) for an unspecified term for industrial uses;

   5.2 in the absence of the land leasing agreement, the PRC lawyer cannot ascertain the duration and the rental level of the leasehold interests;

   5.3 the 10 sets of Building Ownership Certificates as stated in the footnote no. 2 are legally held by Jilin Fudun Timber Co., Ltd. (吉林福敦木業有限公司);

5.4 Jilin Fudun Timber Co., Ltd. (吉林福敦木業有限公司) has the rights to sub-lease and mortgage the leasehold land use rights of the subject land parcel subject to the proper procedures as enacted by the PRC Law;

5.5 Jilin Fudun Timber Co., Ltd. (吉林福敦木業有限公司) has the rights to transfer, lease out or mortgage the 10 subject buildings of the property subject to the proper procedures as enacted by the PRC Law;

5.6 the land use rights in the property and 10 buildings of the property are subject to a mortgage in favour of the Agricultural Bank of China – Dunhua Branch (中國農業銀行敦化支行); and

5.7 the leasehold land use rights and the 10 buildings of the property are free from were free from seizure, administrative and judiciary custody and other mandatory actions.

6. We have ascribed no commercial value to the property as the duration and rent of the leasehold land use rights held by Jilin Fudum Timber Co., Ltd. cannot be ascertained as at the valuation date.

Property Reconciliation

Property	**Two parcels of land situated at the north of Sheung Ji Road Weiyang District Xian City Shanxxi Province the PRC**
Carrying value as at 31 December 2009 *(Note 1)*	RMB78,986,000 (US$11,561,194)
Depreciation and amortization for the 4 months ended 30 April 2010 *(Note 2)*	–
Carrying value as at 30 April 2010 *(Note 3)*	RMB78,986,000
Revaluation Surplus	RMB391,014,000
Valuation as at 30 April 2010	RMB470,000,000

Notes:

1. extracted from Statement of Financial Position (see Appendix IIB to this circular) as at 31 December 2009 of the Target Company

2. extracted from the management account of the Target Company

3. extracted from the management account of the Target Company

4. pursuant to the revaluation of the Group's interests in land and buildings (see Appendix V to this circular). For property numbered 1, such revaluation surplus will not be recorded in the Enlarged Group's financial statements as they are stated at cost less accumulated depreciation and accumulated impairment losses

A. FOREIGN-INVESTED PROPERTY DEVELOPMENT ENTERPRISES

Pursuant to the "Foreign Investment Industrial Guidance Catalogue (2004 Revision)" (the "2004 Industrial Guidance Catalogue")《外商投資產業指導目錄(2004年修訂)》jointly enacted by the Ministry of Commerce ("MOFCOM") and the National Development and Reform Commission ("NDRC") on 30 November 2004 and enforced on 1 January 2005, the development and construction of ordinary residential units falls within the category of "encouraged industry"; the development of large scale of land lots which shall be operated only by sino-foreign equity joint venture or sino-foreign co-operative joint venture, and the construction and operation of high-end hotels, villas, premium office buildings, international conference centers and large theme parks fall within the category of "restricted industry"; other types of property development fall within the category of "permitted industry". Foreign-invested property development enterprises can be established in the form of sino-foreign equity joint venture, sino-foreign co-operative joint venture or wholly owned foreign enterprise according to the 2004 Industrial Guidance Catalogue and other laws and administrative regulations relating to foreign investment enterprises. Prior to the application for registration to the department of administration of industry and commerce, the enterprise must be approved by the authorities of commerce and obtain an Approval Certificate for a Foreign Investment Enterprise.

Pursuant to the new "Foreign Investment Industrial Guidance Catalogue (2007 Revision)" (the "2007 Catalogue")《外商投資產業指導目錄 (2007年修訂)》jointly enacted by MOFCOM and NDRC on 31 October 2007 and enforced on 1 December 2007, which repealed the 2004 Industrial Guidance Catalogue upon its enactment, the development and construction of ordinary residential houses has been removed from the encouraged category to the permitted category; the restricted category has been adjusted as the following: (i) the development of large scale of land lots which shall be operated only by sino-foreign equity joint venture or sino-foreign co-operate joint venture; (ii) the construction and operation of high-end hotels, villas, premium office buildings, international conference centers; (iii) housing agents, brokerages and the second-tier real estate market; the construction and operation of large scale theme park has been removed from the Real Estate industry to the Culture, Sports and Entertainment Industries which is still in the restricted category. It means that the enterprise investing in such projects will not be regarded as a real estate development company; the construction and operation of golf courts has been removed from the restricted category to the prohibited category.

On 11 July 2006, the PRC Ministry of Construction ("MOC"), MOFCOM, NDRC, the People's Bank of China ("PBOC"), the State Administration of Industry and Commerce ("SAIC") and the State Administration for Foreign Exchange ("SAFE") jointly enacted the "Circular on Standardising the Admittance and Administration of Foreign Capital in the Property Market"《關於規範房地產市場外資准入和管理的意見》(Jianzhufang [2006] 171). According to this Circular, the admittance and administration of the foreign capital in property market must comply with the following requirements:

(a) Foreign institutions or individuals purchasing property in China not for their own use shall follow the principle of commercial existence and apply for establishment of foreign investment enterprises under the regulations of foreign investment in property. The foreign institutions and individuals can only carry on their business within the approved business scope after obtaining the approvals from the relevant authorities and upon completion of the relevant registrations.

(b) If the total investment of a foreign-invested real estate enterprise exceeds or equals to USD10 million, the registered capital must not be less than 50% of the total investment. If the total investment is less than USD10 million, the amount of the registered capital shall follow the existing regulations.

(c) For the establishment of a foreign-invested real estate enterprise, the commerce authorities and the department of administration of industry and commerce are in charge of granting approval for establishment and effecting registration of the foreign invested property development enterprise and issuing the Approval Certificate for a Foreign Investment Enterprise and the Business License which are only effective for one year. After settlement of the land premiums, the enterprises should apply for the Grant of State-owned Land Use Rights certificate by presenting the above-mentioned certificate and license. With the land use rights certificate, the enterprises will receive an official Approval Certificate for a Foreign Investment Enterprise from the commerce authorities, and shall replace the Business License with one that has the same operation term as the formal Approval Certificate for Foreign Investment Enterprise in the department of administration of industry and commerce, and then it shall apply for tax registration with the tax authorities.

(d) Transfers of projects of or shares in foreign-invested real estate enterprises, and the acquisitions of domestic real estate enterprises by foreign investors should follow strictly the relevant laws, regulations and policies to obtain the approvals. The investor should submit: (a) the guarantee letters for the performance of the Grant of State-owned Land Use Right, The Planning Permit for Construction Land and Construction Work Planning Permit; (b) Certificate of Land Use Right; (c) the certification on alteration of archival files issued by construction authorities; and (d) the certification on the payment of tax issued by the relevant tax authorities.

(e) While merging and acquiring domestic real estate enterprises by way of share transfer or other means, or the purchase of shares from the Chinese party in a sino-foreign equity joint venture, the foreign investors shall properly resettle the employees, settle the bank loans and pay all the consideration at a time with its internal fund. The foreign investors with unfavourable record shall not be allowed to conduct any of the aforesaid activities.

On 23 May 2007, MOFCOM and SAFE jointly issued the "Notice Concerning Further Strengthening and Regulating the Examination, Approval and Supervision of Direct Foreign Investment in Real Estate" (the "Notice 50") 《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》(Shang Zi Han [2007] No. 50). The Notice 50 provides stricter controlling measures including, among others:

(a) Foreign investment in the real estate sector in the PRC relating to high-end properties should be strictly controlled.

(b) When the application is filed for establishment of foreign invested real estate enterprise, the Grant of State-owned Land Use Right, the ownership of the property should be obtained first, or the pre-granting/purchase agreement has already been concluded with the land administration authority, land developer/owner of the property. If the above requirements have not been satisfied, the approval authority shall not approve the application.

(c) Acquisition of or investment in domestic real estate enterprises by way of return investment (including the same actual controlling person) shall be strictly controlled. Overseas investors may not avoid approval for foreign investment in property by way of changing the actual controlling person of the domestic real estate enterprise. Once the foreign exchange authority has found the foreign-invested property enterprise established by way of deliberately avoiding and false representation, it shall take action against the enterprise's conduct of remittance of capital and interest accrued without approval, and the enterprise shall bear the liability for cheated purchase and evasion of foreign exchange.

(d) Both Chinese and non-Chinese parties in a foreign-invested real estate enterprises are prohibited from guaranteeing a fixed return or the same effect to the other party in any way.

(e) If foreign-invested enterprises engage in real estate development or operation business or if foreign-invested real estate enterprises engage in new real estate project development and/or operations, they must apply to the relevant examination and approval authorities for their expansion of scope of business or scale of operation in accordance with the laws and regulations related to foreign investments.

(f) Local examination and approval authorities must report to MOFCOM for record their approvals of establishment of foreign-invested real estate enterprises.

(g) Local SAFE administrative authorities and designated foreign exchange banks shall not conduct foreign exchange purchase and settlement process for any foreign-invested real estate enterprises who fail to satisfy MOFCOM for filing requirement or annual review procedure. With regard to the foreign invested real estate enterprises examined and approved by local authority hereof against the law, MOFCOM shall investigate and rectify it, the authority of foreign exchange administration shall not handle such procedures as foreign exchange registration hereto.

On 10 July 2007, SAFE promulgated "Notice of the list of first batch of foreign-invested real estate projects that have been filed with MOFCOM"《國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》(Hui Zong Fa [2007] No. 130), which imposes some restrictions on foreign exchange and foreign debts registration of the foreign-invested real restate enterprises which are incorporated after 1 June 2007, the details are as follows:

(a) For a foreign-invested real estate enterprise (both newly established and through capital increase, same below) which has obtained the approval certificate from the competent commercial department and filed with MOFCOM after and including 1 June 2007 (same below), the local Administration of Foreign Exchange will not conduct the foreign debt registration and foreign debts settlement approval process.

(b) For a foreign-invested real estate enterprise which has obtained the approval certificate from the local competent commercial department but failed to file with MOFCOM after and including 1 June 2007, the local Administration of Foreign Exchange will not conduct foreign exchange (or change the registration) and the settlement and sales process for capital projects.

On 18 June 2008, MOFCOM issued the "Notice on Proper Handling of Archiving Documents for Foreign investment in the Real Estate Industry"《商務部關於做好外商投資房地產業備案工作的通知》. According to the Notice, the competent departments of commerce at the provincial level are authorized to verify the materials for archiving submitted by the foreign-invested real estate enterprise, and MOFCOM together with other departments of the State Council shall conduct spot-checks over the above enterprises.

On 20 December 2008, the State Council General Affairs Office issued "Several Opinions on Promoting the Sound Development of the Real Estate Market"《國務院辦公廳關於促進房地產市場健康發展的若干意見》in order to speed up the development of social security housing, encourage purchases of properties for self-use and upgrade purposes, and direct real estate developers to cope with the changing market.

According to the Opinions, the following measures will be adopted to facilitate the development of real estate developers:

(i) increasing credit financing support to ordinary residential housing developments of low to medium level prices or of small to medium sizes, particularly those under construction;

(ii) providing financial support and other related services to real estate developers with good credit standing for their merger and acquisition activities;

(iii) conducting housing accumulation fund's trial test and providing various funding channels;

(iv) supporting bond issuance by real estate developers with good credit and financial positions; and

(v) eliminating urban real estate tax, and unifying the real estate taxes applicable to domestic and foreign-funded enterprises and individuals, who will all be subject to the PRC Tentative Regulations on Real Estate Tax.

B. DEVELOPMENT OF A PROPERTY PROJECT

(a) Land for property development

Under the "Interim Regulations of the People's Republic of China on Granting and Transfer of the Right to Use State-owned Land in Urban Areas" (the "Interim Regulations on Granting and Transfer")《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》promulgated and enforced by the State Council on 19 May 1990, a system of granting and transfer of the right to use State-owned land is adopted. A land user shall pay a premium to the State as consideration for the Grant of State-owned Land Use Rights within certain terms, and a land user may transfer, lease, mortgage or otherwise commercially exploit the Grant of State-owned Land Use Right within his terms of use. Under the Interim Regulations on Granting and Transfer and the Urban Property law, the land administration authority under the local government of the relevant city or county shall enter into a granting contract with the land user for the Grant of State-owned Land Use Right. The land user shall pay the granting price as stipulated in the granting contract. After paying the granting price in full, the land user shall register with the land administration authority and obtain a The State-owned Land Use Rights Certificate. The Certificate is an evidence of the acquisition of Grant of State-owned Land Use Rights. The Development Regulations provide that the Grant of State-owned Land Use Rights for a site intended for real estate development shall be obtained by way of a grant except for those Grant of State-owned Land Use Rights which may be obtained by way of allocation pursuant to the PRC laws or the stipulations of the State Council.

Under the "Regulations on the Granting of State-Owned Land Use Right through Public Tender, Auction and Listing-for-Sale"《招標拍賣掛牌出讓國有土地使用權規定》 enacted by the Ministry of Land and Resources on 9 May 2002 and enforced on 1 July 2002, land for commercial use, tourism, entertainment and commodity housing development shall be granted by way of public tender, auction and listing-for-bidding. In cases where there are two or more applicants for one parcel of land, the Grant of State-owned Land Use Right shall also be granted by way of public tender, auction and listing-for-bidding. The procedures are as follows:

i. The land authority under the people's government of the city and county (the "grantor") shall make an announcement at least 20 days prior to the date of the proposed public tender, auction and listing-for-bidding. The announcement should include basic particulars such as land parcel, qualification requirement of the bidder and auction applicants, methods and criteria on confirming the winning tender or winning bidder, and other conditions such as the deposit of the bid.

ii. The grantor shall conduct a qualification verification of the bidding applicants and auction applicants, inform the applicants who satisfy the requirements set out in the announcement and invite them to attend the competitive public tender, auction or listing-for-bidding.

iii. After determining the winning tender or the winning bidder by the competitive public tender, auction or listing-for-bidding, the grantor and the winning tender or winning bidder shall then enter into a confirmation. The grantor should return the remaining bidding or tender deposits to their original applicants.

iv. The grantor and the winning tender or winning bidder shall enter into a contract for Grant of State-owned Land Use Right granted according to the time and venue set out in the confirmation. The deposit of the bid paid by the winning tender or winning bidder will be used to set off part of the granting price of the Grant of State-owned Land Use Rights.

v. The winning tender or winning bidder should apply for the land registration after paying off the granting price in accordance with the Grant of State-owned Land Use Right. The people's government above the city and county level should issue the "Land Use Right Certificate for State-Owned Land".

According to the "Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction" (the "Land Use Approval Notice")《關於加強城市建設用地審查報批工作有關問題的通知》enacted by the Ministry of Land and Resources on 4 September 2003, commencing from the day of distribution of the Land Use Approval Notice, land use for luxurious commodity houses shall be stringently controlled, and applications for land use for building villas shall be stopped. On 30 May 2006, the Ministry of Land and Resources issued the "Urgent Notice of Further Strengthening the Administration of the Land"《關於當前進一步從嚴土地管理的緊急通知》(the "Urgent Notice"). It is expressly prescribed in this Urgent Notice that land for real estate development must be granted by way of public tender, auction and listing-for-bidding; the rules of stopping the development project for villas should be strictly enforced; and all supply of land for such purpose and handling of related land use procedures will be ceased from the day of the Urgent Notice's issuance.

Under the Urgent Notice, the land authority should rigidly execute the "Model Text of the State-owned Land Use Right Granting Contract" and "Model Text of the State-owned Land Use Right Granting Supplementary Agreement (for Trial Implementation)" jointly enacted by the Ministry of Land Resources and SAIC. The documents of the land granting should ascertain the requirement of planning, construction and land use such as the restriction of the dwelling size, plot ratio and the time limit of starting and completion. All these should be agreed in the Land Use Right Granting Contract.

On 8 September 2007, the Ministry of Land and Resources promulgated a "Notice on Strengthening the Disposing of Idle Land"《關於加大閒置土地處置力度的通知》providing that the Grant of State-owned Land Use Right shall be granted by ways of "Cultivated Land". It means that the Grant of State-owned Land Use Right can only be transferred after the payment of compensation fees for landing and settlement and completion of the land development at the earlier stage. The notice also prescribes that the State-owned Land Use Rights Certificate shall not be issued before the land grant premium for acquisition of land has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

On 28 September 2007, the Ministry of Land Resources promulgated the "Regulation on Bidding, Auction and Listing Required for Granting of State-Owned Construction Land"《招標拍賣掛牌出讓國有建設用地使用權規定》("this Regulation") which enforced on 1 November 2007. This Regulation specifies that the grantee of State-owned construction land use rights shall fully pay up the premium for the Grant of State-owned Land Use Right in accordance with the State-owned land granting contract before it could proceed with the relevant procedures for Grant of State-owned Land Use Right registration and apply for a State-owned Construction Land Use Rights Certificate. No grantee could be granted a State-owned Construction Land Use Rights Certificate for the land in proportion to the partial payment of the premium that the grantee has paid.

On 27 February 2007, the Ministry of Land and Resources and the Ministry of Finance jointly promulgated the "Provisional Measures on Financial Administration of Reserve Land Funds"《土地儲備資金財務管理暫行辦法》for the purpose of perfecting the land reserve system, strengthening land regulation and control, regulating the operation of the land market, strengthening land administration and regulating land reserve administrative behaviors.

On 19 November 2007, the Ministry of Land and Resources, the Ministry of Finance and the PBOC jointly promulgated the "Measures for the Administration of Reserved Land"《土地儲備管理辦法》("Reserved Land Measures"). As defined in the Reserved Land Measures, reserved land refers to the pro-phased development of land, and the reserving of land for such projects by departments responsible for land under county or city governments. The purpose of reserving such land is to control the property market and promote the appropriate use of land resources.

Under the Reserved Land Measures, the above-mentioned departments should draft plans for the implementation of such projects, and strictly accord with the plans. Before departments implement such plans, they must obtain appropriate governmental approval.

On 30 December 2007, the "Notice of the General Office of the State Council on Strictly Enforcement of Regulations and Policies Regarding to Rural Collective Construction Land"《國務院辦公廳關於嚴格執行有關農村集體建設用地法律和政策的通知》was issued to introduce a series of measures for strictly strengthening administration and management of rural collective construction land.

The State Council issued the "Circular on Saving Intensive-use Land"《國務院關於促進節約集約用地的通知》on land conservation and improving the efficiency of land use on 3 January 2008, in order to better protect arable land. The circular called on relevant government agencies to map out large-scale "scientific infrastructure" programs, tighten land use approval in both rural and urban areas and step up land market monitoring. The circular prescribed that, if land approved for development remains unused for more than two years, it should be recovered by the government according to laws and regulations. If the land remains idle for more than one year and less than two years, land developers should pay a 20 percent non-usage fee. More than 70 percent of the land used for construction of urban housing should be designated for residential purposes for low-rent units, affordable housing, price-limited housing and smaller units of less than 90 square meters. This circular also stipulates that lending and financing services will not be provided for illegally used land. Moreover, financial institutions should be very prudent when they provide loans and/or when they examine financing for real estate projects that exceed one year from the start date listed in the land use right granting contract, for which less than 1/3 of the development area has been completed, or for which less than 1/4 of the investment has been made.

(b) Resettlement

Pursuant to the "Administration Rules of Demolition and Removal of Housing in Urban Areas"《城市房屋拆遷管理條例》promulgated by the State Council on 13 June 2001, the party responsible for resettlement (the "Resettling Party") should apply for a resettlement permit and provide monetary compensation or alternative residence for the residents to be resettled. The real estate administration authority will issue a resettlement notice after granting the resettlement permit, detailing the parties concerned, the properties affected and the period of the resettlement. The Resettling Party will then enter into written agreements with the relevant residents detailing, among other things, the compensation to be provided to the residents, which will be determined on the basis of, among other things, the property's location, permitted use and gross floor area. If the Resettling Party and the residents fail to reach agreement, either party may apply to the relevant authority for a ruling. A ruling will be given within 30 days of the application, following which either party may initiate proceedings in the People's court within three months of the ruling if they contest the ruling.

In order to prevent illegal demolition and removal, and overheating investment in some areas, the General Office of the State Council issued the "Notice on Controlling the Scale of Demolition and Removal and Strengthening Administration of Demolition and Removal"《關於控制城鎮房屋拆遷規模嚴格拆遷管理的通知》on 6 June 2004. The notice addresses issues including, but not limited to, the following: (i) strictly controlling the area of demolition and removal to ensure that the total area of demolition and removal is less than that of the previous year; (ii) strictly administering the procedures of demolition and removal so that the process is carried out in an open, fair and just manner; (iii) strengthening the supervision and administration of the compensation costs incurred for the demolition and removal, and ensuring the completion of the relocation; and (iv) strictly punishing certain illegal actions in relation to demolition and removal.

(c) Development of a real estate project

i. Commencement of a real estate project and the idle land

Under the Urban Property Law, those who have obtained the Grant of State-owned Land Use Right through a granting must develop the land in accordance with the terms of use and within the period of commencement prescribed in the contract for the Grant of State-owned Land Use Rights granting. According to the "Measures on Disposing Idle Land"《閒置土地處置辦法》enacted and enforced by the Ministry of Land and Resources on 28 April 1999, the land can be defined as idle land under any of the following circumstances:

- development and construction of the land is not commenced within the prescribed time limit after obtaining the Grant of State-owned Land Use Right without consent from the people's government who approved the use of the land;

- where the "Contract on Paid Use of the Right to Use State-Owned Land" or the "Approval Letter on Land Used for Construction" has not prescribed the date of commencing the development and construction, the development and construction of the land is not commenced at the expiry of one year from the date when the "Contract on Paid Use of the Right to Use State-Owned Land" became effective or when the administrative department of land issued the "Approval Letter on Land Used for Construction";

- the development and construction of the land has been commenced but the area of the development and construction that has been commenced is less than one-third of the total area to be developed and constructed or the invested amount is less than 25% of the total amount of investment, and the development and construction have been continuously suspended for one year or more without an approval; and

- other circumstances prescribed by the laws and the administrative regulations.

The municipality or county-level municipality administrative department shall, after a piece of land being ascertained as idle land, notify the concerned land user and draft a proposal on methods of disposal of the idle land including but not limited to the extension of the time period for development and construction (provided that the extension shall be no longer than one year), changing the use of the land, arranging for temporary use, the government may grant the idle land with the same value or other construction land to the land user, ascertaining a new land user by such ways as public tender, auction; and the land user may sign a reclaiming agreement with the government to return such Grant of State-owned Land Use Right to the government. The administrative department of land under the people's government of city or county level shall, after the proposal on disposal has been approved by the original people's government who approved the use of the land, arrange for implementation of the proposal. To the idle land which is obtained by granting the real estate development and is within the scope of city planning, if the work has not been commenced after one year from the prescribed date of commencement, a surcharge on idle land equivalent to less than 20% of the granting price may be levied; if the work has not been commenced after two years from the prescribed date of commencement, the land can be confiscated without any compensation. However, the preceding stipulations shall not apply if the delay is caused by force majeure; acts of government or acts of other relevant departments under the government; or by the indispensable preliminary work.

The "Notice on Strengthening the Disposing of Idle Land"《關於加大閒置土地處置力度的通知》 issued by the Ministry of Land Resources on 8 September 2007 emphasizing that the disposal of idle land shall be speeded up. The land regulatory authority may impose an idle land penalty of up to 20% of the land premium; the land regulatory authority shall reclaim the idle land without compensation as required by the relevant regulations. For land that becomes idle as a result of illegal approval, such land shall be reclaimed before the end of 2007.

On 30 September 2007, the Ministry of Land Resources issued the "Notice On Implementation of the <Several Opinions of the State Council of the PRC on Solving Housings Shortage with respect to Urban Low-Income Household> and Further Strengthening Control on Land Supply"《關於認真貫徹<國務院關於解決城市低收入家庭住房困難的若干意見>進一步加強土地供應調控的通知》for strictly strengthening disposal of idle land. In cases where such land remains undeveloped one year after the construction commencement date as stated in the relevant State-owned Land Use Right granting contract, an idle land penalty on the real estate developer may be levied by the land regulatory authority, and the real estate developer would be required by the land regulatory authority to rectify the situation with prescribed time. The land regulatory authority may impose an idle land penalty of up to 20% of the land premium. In cases where such land remains undeveloped for two years, the land regulatory authority may reclaim the land. If the development of such land has commenced, development has been suspended without approval for one year, and the portion of the land that has been developed is less than 1/3 of the total area to be developed, or the amount of capital directly invested in the construction of the building is less than 1/4 of the total investment, such land shall be handled as a idle land.

ii. Planning of a property project

According to the "Urban and Rural Planning Law of the People's Republic of China"《中華人民共和國城鄉規劃法》enacted by the Standing Committee of the National People's Congress on 28 October 2007 and as shall come into force as of 1 January 2008, which repealed the "City Planning Law of the People's Republic of China"《中華人民共和國城市規劃法》enacted by the Standing Committee of the National People's Congress on 26 December 1989 and enforced on 1 April 1990, and the "Measures for Planning Administration of Granting and Transfer of Right to Use Urban State-owned Land"《國有土地使用權出讓轉讓規劃管理辦法》enacted by the Ministry of Construction on 4 December 1992 and enforced on 1 January 1993 and the "Notice of the Ministry of Construction on Strengthening the Planning Administration of Granting and Transferring Right to Use State-owned Land"《建設部關於加強國有土地使用權出讓規劃管理工作的通知》enacted and enforced by the Ministry of Construction on 26 December 2002, after signing a Grant of State-owned Land Use Right, a property developer shall apply for a The Planning Permit for Construction Land (建設用地規劃許可證) from the city and county planning authority under the people's government with the granting contract and the relevant documents of approval, assessment, record for the proposed real estate project. The granting contract without any provisions relating to land planning will be invalidated. In cases where the construction site of buildings, roads, pipelines or other types is located in a planning zone of a city or county, the construction enterprises or individuals shall apply for a Planning Permit for Construction Works (建設工程規劃許可證) from the city/county planning authority or a people's government at village level designated by the provincial people's governments.

Under the "Urban and Rural Planning Law of the People's Republic of China", governments above the county level are entitled to withdraw the relevant approval documents when any permit for access to or use of the land is granted to the developer before obtaining the land planning permit; land occupied shall be returned immediately and the compensation shall be paid when damages to parties concerned have resulted. This law also emphasizes the preservation of natural resources and historical and cultural estates, and the maintenance of local and national characteristics and tradition.

iii. Construction of a property project

After obtaining the Permit for Construction Work Planning, a property developer shall apply for a Permit for Commencement of Construction Works (施工許可證) from the construction authority under the local people's government above the county level according to the "Measures for the Administration of Construction Permits for Construction Projects"《建築工程施工許可管理辦法》enacted by the Ministry of Construction on 15 October 1999 and revised and enforced on 4 July 2001. However, in cases where the investment amount is less than RMB300,000 or the construction area is less than 300 sq.m., such property projects are not required to obtain a Construction Permit. For a property project which shall be applied for a Construction Permit as required by the aforesaid regulations, the real estate developer shall not start to construct without a Construction Permit.

Construction Safety

On 1 November 1997, the "Construction Law of the People's Republic of China"《中華人民共和國建築法》was promulgated by the 28th Meeting of the Standing Committee of the Eighth National People's Congress, which became effective as of 1 March 1998. A summary of the important provisions in respect of construction production safety management in the Construction Law is set forth below:

- Construction project production safety management must adhere to the policy of safety first and prevention first, and must establish and perfect a system of production safety. Construction project design shall conform to the construction safety procedures and technical standards formulated in accordance with state provisions to ensure the safe execution of the project.

- A building construction enterprise shall work out corresponding safety technical measures according to the characteristics of each construction project when developing its construction plans; for specialty-intensive items of the project, special-purpose designs for safe construction shall be compiled and safety technical measures taken. A building construction enterprise shall take such measures as the maintenance of safety and precautions against danger and fire prevention at the construction site. A building construction enterprise shall take safety protection measures in the case of the construction site causing possible damage to its adjoining buildings, structures or special operational environment.

- A construction unit shall, pursuant to the relevant state provisions, go through the formalities of application for approval in case of any of the following circumstances:

  (1) need to temporarily occupy sites beyond the approved planned scope;

  (2) possibility of damaging such public facilities as roads, pipes and cables, electricity, postal service and telecommunications;

  (3) need to temporarily suspend the water supply, electricity supply or road traffic;

  (4) need to conduct explosion operations; and

  (5) other circumstances requiring going through the formalities of application for approval as prescribed by laws and regulations.

- The competent department of construction administration shall be responsible for the administration of construction safety in production and subject to the guidance and supervision of the competent department of labour in construction safety in production in accordance with law.

- The building construction enterprise shall be responsible for the construction site safety. The general contracting unit shall be responsible for the construction site safety of the project under general contract for construction. Subcontracting units shall be responsible to the general contracting unit and subordinate themselves to the management of the general contracting unit for construction site safety in production.

- In the event of an accident in the process of construction, the building construction enterprise shall take emergency measures to reduce casualties of personnel and losses caused by the accident, and submit a report in time to the departments concerned pursuant to relevant state provisions.

On 1 February 2004, the State Council promulgated the "Administrative Regulations on Safety in Construction Projects"《建設工程安全生產管理條例》, which set up sound regulations and rules to curb illegal operations, and make clear the obligations of each participant for construction safety. In addition, the regulations reinforce legal punishment for illegal operation.

iv. Completion of a property project

According to the Development Regulation, the "Regulation on the Quality Management of Construction Projects"《建設工程質量管理條例》enacted and enforced by the State Council on 30 January 2000, the "Interim Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure"《房屋建設工程和市政基礎設施工程竣工驗收備案管理暫行辦法》enacted and enforced by the Ministry of Construction in April 2000 and the "Interim Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure"《房屋建設工程和市政基礎設施工程竣工驗收暫行規定》enacted and enforced by the Ministry of Construction on 30 June 2000, after completion of work for a project, with 15 days after passing the acceptance examination, a real estate developer shall apply for the archival filling upon completion to the real estate development authority under the people's government on or above the county level and, upon which the "Record of acceptance examination upon project completion" will be issued. For a housing project or other building complex project, an acceptance examination shall be conducted upon completion of the whole project and where such a project is developed in phases, separate acceptance examinations may be carried out for each completed phase.

v. Environmental Protection

The laws and regulations governing the environmental requirements for real estate development in the PRC include the "Environmental Protection Law"《中華人民共和國環境保護法》, the "Prevention and Control of Noise Pollution Law"《中華人民共和國環境噪聲污染防治法》, the "Environmental Impact Assessment Law" 《中華人民共和國環境影響評價法》and the "Administrative Regulations on Environmental Protection for Development Projects"《建設項目環境保護管理條例》. Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact study report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant authorities will grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

C. PROPERTY FINANCING

According to the "Notice of the People's Bank of China on Regulating Home Financing Business"《中國人民銀行關於規範住房金融業務的通知》enacted by the People's Bank of China (the "PBOC") on 19 June 2001, all banks must comply with the following requirements before granting residential development loans, individual home mortgage loans and individual commercial flat loans:

(a) Residential development loans from banks shall only be granted to real estate development enterprises with approved development qualifications and high credit ratings. Such loans shall be offered to residential projects with good market potential. While the borrowing enterprise must have an amount of internal fund no less than 30% of the total investment required of the project, the project itself must have been issued with a Land Use Rights Certificates, The Planning Permit for Construction Land, Planning Permit for Construction Works and Permit for Commencement of Construction Works.

(b) In respect of the grant of individual home mortgage loans, the ratio between the loan amount and actual value of the security (the "Mortgage Ratio") shall never exceed 80%. Where an individual applies for a home purchase loan to buy a pre-completion property, the said property must have achieved the stage of "topping-out of the main structure completed" for multi-story buildings or "two-thirds of the total investment completed" for high-rise buildings.

(c) In respect of the grant of individual commercial flat loans, the Mortgage Ratio under the application for commercial flat loans shall not exceed 60% with a maximum loan period of 10 years and the subject commercial properties have already been completed.

The PBOC issued the "Circular on Further Strengthening the Management of Loans for Property Business"《關於進一步加強房地產信貸業務管理的通知》on 5 June 2003 to specify the requirements for banks to provide loans for the purposes of real estate development and individual home mortgage as follows:

(a) The real estate loan by commercial banks to real estate development enterprises shall be granted only under the title of real estate development loan and it is strictly forbidden to extent such loans as current capital loan for real estate development project or other loan item. No lending of any type shall be granted to enterprises which have not obtained the State-owned Land Use Rights Certificate, Planning Permit for Construction Land, Planning Permit for Construction Works and Permit for Commencement of Construction Works;

(b) Commercial banks shall not grant loans to real estate developers to pay off land premium; and

(c) Commercial banks may only provide mortgage loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his first residential unit, the down payment remains to be 20%. In respect of his loan application for his second or more (including the second) residential unit(s), the percentage of the first installment shall be increased.

Pursuant to the "Guidance on Risk Management of Property Loans of Commercial Banks"《商業銀行房地產貸款風險管理指引》issued by China Banking Regulatory Commission on 2 September 2004, any real estate developer applying for real estate development loans shall have at least 35% of capital funds required for the development.

According to the "Notice of the People's Bank of China on the Adjustment of Commercial Bank Housing Loan Policies and the Interest Rate of Excess Reserve Deposit"《中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知》enacted by PBOC on 16 March 2005, starting from 17 March 2005, the down payment of individual home increased loan from 20% to 30% in cities and areas where property prices grow too quickly. The commercial banks can independently determine scope of such property price rise according to specific situations in different cities or areas.

On 24 May 2006, the State Council forwarded the "Opinion of the Ministry of Construction and Other Departments on Adjusting the Housing Supply Structure and Stabilizing the Property Prices"《關於調整住房供應結構穩定住房價格的意見》. The regulations provide the following:

(a) Tightening the control of real estate advancing loan facilities. The commercial banks are not allowed to advance their loan facilities to real estate developers who do not have the required 35% or more of the total capital for the construction projects. The commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the real estate developers who have a large number of idle lands and unsold commodity properties. Banks shall not accept mortgages of commodity properties remaining unsold for three years or longer.

(b) From 1 June 2006 and onward, individual purchasers need to pay a minimum of 30% of the purchase price as down payment. However, if individual purchasers purchase apartments with a floor area of 90 sq.m. or less for residential purposes, the existing requirement of 20% of the purchase price as down payment remains unchanged.

According to "Circular on Standardizing the Admittance and Administration of Foreign Capital in Property Market"《關於規範房地產市場外資進入和管理的意見》enforced on 11 July 2006, foreign-invested real estate development enterprises which have not paid up their registered capital fund fully, or failed to obtain the State-owned Land Use Rights Certificate, or with under 35% of the total investment for the project, will not be allowed to obtain a loan in or outside China, and foreign exchange administration departments shall not approve any settlement of foreign loans by such enterprises.

On 22 July 2006, the China Banking Regulatory Commission issued the "Circular on Further Strengthening the Management of Real Estate Credit"《關於進一步加強房地產信貸管理的通知》, provided that granting development loans to a real estate developer that do not satisfy the conditions for loans, such as that capital funds paid for real estate project (except economy affordable house) have not reached 35% of the total investment to the project, or the State-owned Land Use Rights Certificate, Planning Permit for Construction Land, Planning Permit for Construction Works, and Permit for Commencement of Construction Works have not been obtained, shall be strictly forbidden. Granting new real estate loans to real estate developers that stock up lands or property resources, or disturb the normal market order shall be strictly restricted. Arbitraging real estate loans of real estate developers by means such as dividing up a project or developing it on a revolving basis shall be specially prevented.

On 27 September 2007, the PBOC and CBRC jointly issued the "Notice on Strengthening the Administration of Commercial Real Estate Credit Loans"《關於加強商業性房地產信貸管理的通知》, which further stipulates stringent requirements to the grant of loans in respect to the second and subsequent purchases of housing by individuals. For those who have used credit loans to purchase housing and have applied for purchasing a second (inclusive) or more housing, the down payment shall not be less than 40% of the total purchase price, while the interest rate of such loan shall not be lower than 1.1 times the benchmark interest rate of the same grade for the same period as announced by the PBOC. Moreover, the ratio of the down payment and the level of the interest rate of the loan shall be substantially adjusted upwards according to the number of purchases. The specific increase range will be determined by commercial banks at their own discretion based on the relevant principles of credit risk management, however, the monthly expense for paying housing loan by the individual purchaser shall not be more than 50% of its monthly income.

On 22 October 2008, the PBOC issued the "Notice on Extending the Downward Movement of Interest Rates for Loans for Residential Premises of a Commercial Nature for Individuals in Support of First-time Purchase of Ordinary Residential Premises by Residents"《中國人民銀行關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知》to reduce the down payment requirements from 30% to 20%, and to adjust the lower limit of the lending rate for residential properties of a commercial nature for individuals to 70% of the benchmark lending rate.

D. MAJOR TAXES APPLICABLE TO PROPERTY DEVELOPERS

(a) Enterprise Income tax

According to the "Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises"《中華人民共和國外商投資企業和外國企業所得稅法》enacted by National People's Congress on 9 April 1991 and enforced on 1 July 1991 and its detailed rules enacted by the State Council on 30 June 1991, the rate of enterprise income tax for foreign investment enterprises and enterprise income tax for entities and premises engaged in production and operation by foreign enterprises in China shall be 30%, and the rate of local income tax shall be 3%. The above-mentioned law and rules were repealed by the New Income Tax Law as of 1 January 2008.

Pursuant to the "Provisional Regulations of the People's Republic of China on Enterprise Income Tax"《中華人民共和國企業所得稅暫行條例》issued by the State Council on 13 December 1993 and enforced on 1 January 1994 and its Implementation Rules enacted by the Ministry of Finance on 4 February 1994, the income tax rate applicable to Chinese enterprises other than foreign investment enterprises and foreign enterprises is 33%. The above-mentioned rules were repealed by the New Income Tax Law as of 1 January 2008.

According to the "Income Tax Law of The People's Republic of China"《中華人民共和國企業所得稅法》(the "New Income Tax Law") enacted by the National People's Congress on 16 March 2007 and the "Rules on the Implementation of Enterprise Income Tax Law of PRC"《中華人民共和國企業所得稅法實施條例》(the "Rules on the Implementation") enacted by the State Council on 6 December 2007 and the foresaid law and regulation enforced from 1 January 2008 onwards, a uniform income tax rate of 25% will be applied towards foreign investment enterprise and foreign enterprises which have set up production and operation facilities in the PRC as well as PRC enterprises. Under the New Tax Law and the Rules on the Implementation, enterprises established under the laws of or within the territory of the PRC, or established under the laws of a foreign country (region), but whose "de facto management body" is located in the PRC are treated as resident enterprises for PRC tax purposes. If an entity is treated as a resident enterprise for PRC tax purposes, it will be subject to PRC tax on its worldwide income at the 25% uniform tax rate, which will include any dividend income the entity receives from its subsidiaries, unless otherwise provided therein. Although the New Income Tax Law provides that dividend income between qualified resident enterprises is exempted income, it is not clear what is considered as a qualified resident enterprise under the New Income Tax Law. Furthermore, the New Income Tax Law and the Rules on the Implementation, effective 1 January 2008, provide that withholding tax at a rate of 10% will normally apply to dividends payable to non-PRC investors which are derived from sources within the PRC. Moreover, any gain realized on the transfer of shares by investors will be subject to 10% tax if such gain is regarded as income derived from sources within the PRC. Moreover, according to the "Arrangements in respect of Prevention of Double Taxation and Tax Evasion between Hong Kong and PRC"《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》, the PRC tax resident enterprise who distributes dividends to its Hong Kong shareholders should be levied enterprise income tax according to PRC laws, however, if the beneficiary of the dividends is a Hong Kong tax resident, who directly hold not less than 25% equity of the aforesaid enterprise (i.e. the dividends distributor), the tax levied should be 5% of the distributed dividends. If the beneficiary of the dividends is a Hong Kong tax resident, who directly hold less than 25% equity of the aforesaid enterprise, the tax levied should be 10% of the distributed dividends.

On 11 April 2008, the State Administration of Taxation issued the "Notice of the Prepayment of Enterprise Income Tax of the Real Estate Development Enterprises"《關於房地產開發企業所得稅預繳問題的通知》, requiring real estate developers to prepay enterprise income tax by quarter (or month) according to the current actual profit.

According to the Notice, for the incomes generated from the pre-sale before completion of the construction of buildings for residential or commercial use or other kinds, the tax prepayments thereof shall be paid upon calculation of the estimated quarterly or monthly profit according to the preset estimated profit rate, which shall be readjusted according to the actual profit after the completion of the construction of the buildings and settlement of the taxable cost.

With respect to non-low-price economy residence, the preset estimated profit rate for the buildings located at provincial-level cities and suburbs shall be not less than 20%, while that for prefectural-level cities and suburbs shall be not less than 15%; for the low-price economy residence, the preset estimated profit rate shall be not less than 3%.

(b) Business Tax

Pursuant to the "Interim Regulations of the People's Republic of China on Business Tax"《中華人民共和國營業税暫行條例》enacted by the State Council on 13 December 1993 and enforced on 1 January 1994 and which was later amended in November 2008 and became enforceable on 1 January 2009 and its "Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Business Tax"《中華人民共和國營業税暫行條例實施細則》issued by the Ministry of Finance on 25 December 1993, which was later amended in 2008 and became enforceable on 1 January 2009, the tax rate on the transfer of immovable properties, their superstructures and attachments is 5%.

(c) Land Value-added Tax

According to the requirements of the "Provisional Regulations of The People's Republic of China on Land Value-added Tax" (the "Land Value-added Tax Provisional Regulations")《中華人民共和國土地增值税暫行條例》which was enacted on 13 December 1993 and effected on 1 January 1994, and the "Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Land Value-added Tax"《中華人民共和國土地增值税暫行條例實施細則》(the "Land Value-added Tax Detailed Implementation Rules") which was enacted and enforced on 27 January 1995, any appreciation amount gained from taxpayer's transfer of property shall be subject to land value-added tax. Land value-added tax shall be subject to a regime of four level progressive rates: 30% on the appreciation amount not exceeding 50% of the sum of deductible items; 40% on the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% on the appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% on the appreciation amount exceeding 200% of the sum of deductible items. The related deductible items aforesaid include the following:

- amount paid for obtaining the Grant of State-owned Land Use Right;
- costs and expenses for development of land;

- costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;

- related tax payable for transfer of property;

- other deductible items as specified by MOF.

According to the requirements of the Land Value-added Tax Provisional Regulations, the Land Value-added Tax Detailed Implementation Rules and the "Notice issued by the MOF in respect of the Levy and Exemption of Land Value-added Tax for Development and Transfer Contracts signed before 1 January 1994"《財政部關於對一九九四年一月一日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知》which was announced by MOFCOM and State Administration of Taxation on 27 January 1995, Land Value-added Tax shall be exempted under any one of the following circumstances:

- Taxpayers building ordinary standard residential properties for sale (i.e., residential properties built in accordance with the local standard for general civilian residential properties. Deluxe apartments, villas, resorts etc., are not under the category of ordinary standard residential properties), where the appreciation amount does not exceed 20% of the sum of deductible items;

- Properties taken over or the Grant of State-owned Land Use Rights repossessed which were approved by the government due to the city planning and construction requirements of the State;

- Due to redeployment of work or improvement of living standard, individuals transfer originally self-used residential property, of where they have been living for five years or more, and after obtaining tax authorities' approval;

- For real estate transfer contract which were signed before 1 January 1994, whenever the properties are transferred, the Land Value-added Tax shall be exempted;

- If the real estate development contract were signed before 1 January 1994 or the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, the Land Value-added Tax shall be exempted if the properties are transferred within five years after 1 January 1994 for the first time. The date of signing the contract shall be the date of signing the Sale and Purchase Agreement. Particular property projects which are approved by the Government for the development of the whole piece of land and long-term development, of which the properties are transferred for the first time after the five-year tax-free period, and after auditing has been conducted by the local financial and tax authorities, the tax-free period may be appropriately prolonged, subject to the approval by the MOF and the State Administration of Taxation.

On 24 December 1999, the MOF and the State Administration of Taxation issued the "Notice in respect of the extension of the period for the Land Value-added Tax Exemption Policy"《關於土地增值稅優惠政策延期的通知》that extended the period for the Land Value-added Tax exemption policy as mentioned in paragraph (5) above to the end of 2000.

After the issuance of the Land Value-added Tax Provisional Regulations and the Land Value-added Tax Detailed Implementation Rules, due to the relatively long period required for property development and transfer, many districts, while they were implementing the regulations and rules, did not mandatorily require the property development enterprises to declare and pay the Land Value-added Tax. Therefore, in order to assist the local tax authorities in the collection of Land Value-added Tax, the MOF, State Administration of Taxation, the Ministry of Construction and the Ministry of Land and Resource had separately and jointly issued several notices to restate the following: After the transfer contact is signed, the taxpayers should declare the tax to the local tax authorities where the properties are located, and pay the Land Value-added Tax in accordance with the amount as calculated by the tax authority and within the specified time limit. For those who fail to acquire proof of tax payment or tax exemption from the tax authorities, the property administration authority shall not process the relevant title change procedures, and shall not issue the Realty Title Certificate.

State Administration of Taxation also issued the "Notice issued by State Administration of Taxation in respect of the Serious Handling of Administration Work in relation to the Collection of Land Value-added Tax"《關於認真做好土地增值稅徵收管理工作的通知》on 10 July 2002 to request local tax authorities to modify the management system of Land Value-added Tax collection and operation procedures, to build up a proper tax return system for Land Value-added Tax and to improve the methods of pre-levying for the pre-sale of properties. That notice also pointed out that the preferential policy of Land Value-added Tax exemption has expired and that such tax shall be levied again for first time transfer of properties under property development contracts signed before 1 January 1994 or project proposals that have been approved and capital was injected for development.

State Administration of Taxation issued the "Notice of State Administration of Taxation in respect of the Strengthening of Administration Work in relation to the Collection of Land Value-added Tax" on 2 August 2004 and the "Notice of State Administration of Taxation in respect of the Further Strengthening of Administration Work in relation to the Collection of Land Value-added Tax and Land Use Tax in Cities and Towns"《國家稅務總局關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知》on 5 August 2004. The aforesaid notices point out that the administration work in relation to the collection of land value-added tax should be further strengthened. The preferential policy of Land Value-added Tax exemption for first time transfer of properties under property development contracts signed before 1 January 1994 is expired and such tax shall be levied again. Where such taxes were still not levied, the situation should be corrected immediately. Also, the notice required that the system of tax declaration and tax sources registration in relation to the land value-added tax should be further improved and perfected.

On 2 March 2006, the MOF and State Administration of Taxation issued the "Notice of Certain Issues Regarding Land Value-added Tax"《關於土地增值稅若干問題的通知》. The notice clarifies the relevant issues regarding land value-added tax as follows:

i. As to the Tax Collection and Exemption in the Sale of Ordinary Standard Residential Properties Built by Taxpayer

The notice sets out the recognised standards for ordinary standard residential properties. Where any developers build ordinary standard residential properties as well as other commercial properties, the value of land appreciation shall be assessed separately. In respect of ordinary standard residential properties for which application for tax exemption has been filed with the tax authority at the locality of the property before the notice is issued and for which land value-added tax exemption has been granted by the tax authority on the basis of the standards of ordinary residential properties originally set down by the people's government of the province, autonomous region or municipality directly under the Central Government, no adjustment shall be retroactively made.

ii. As to the Advance Collection of Land Value-added Tax as well as the Settlement

- All regions shall further improve the measures for the advance collection of land value-added tax, and decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the level of value appreciation in the property industry and market conditions within the region and on the basis of the specific property categories, namely, ordinary standard residential properties, non-ordinary standard residential properties and commercial properties. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up;

- If any tax pre-payment is not paid within the advance collection period, overdue fines shall be imposed additionally as of the day following the expiration of the prescribed advance collection period, according to the relevant provisions of the Tax Collection and Administration Law and its detailed rules for implementation;

- As to any property project that has been completed and gone through the acceptance procedure, where the floor area of the property as transferred makes up 85% or more in the salable floor area, the tax authority may require the relevant taxpayer to conduct the settlement of land value-added tax on the transferred property according to the matching principles regarding the proportion between the income as generated from the transfer of property and the amount under the item of deduction. The specific method of settlement shall be prescribed by the local tax authority of a province, autonomous region, municipality directly under the Central Government, or a city under separate state planning;

- On 28 December 2006, the State Administration of Taxation issued the "Notice on the Administration of the Settlement of Land Value-added Tax of Property Development Enterprises"《國家税務總局關於房地產開發企業土地增值税清算管理有關問題的通知》which came into effect on 1 February 2007. The notice set out further provisions concerning the settlement of land value-added tax by property developers by clarifying details regarding units responsible for settlement of land value-added tax, requirements, materials to be submitted, auditing and verification, recognition of revenue of indirect sale and self-use properties, deductible items and handling of transfer after tax is imposed and settled etc. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation. The notice sets out the following key requirements:

  (i) Settlement of land value-added tax on a project by project basis

  The settlement of land value-added tax shall be made for each approved real estate development project; as for a project developed by stages, the settlement shall be made for each stage of the project.

  In case a development project comprises both ordinary residence and non-ordinary residence, the added value shall be calculated separately.

  (ii) Settlement requirements for land value-added tax

  1. Where it is under any of the following circumstances, the taxpayer shall settle its land value-added tax:

     (a) a real estate project is completed and sold out;

     (b) a real estate project that has not been completed but it is transferred as a whole;

(c) the Grant of State-owned Land Use Right is transferred.

A taxpayer that satisfies the above said provisions shall handle the formalities for settlement at the competent tax authority within 90 days as of the date when it meets the settlement requirements.

2. In case of any of the following circumstances, the tax authority may require the taxpayer to settle its land value-added tax:

(a) As for a real estate project completed and accepted, the construction area already transferred makes up to 85% or more of the salable construction area of the whole project; or although this proportion is below 85%, the residuary salable construction area has been leased or used for self-purposes;

(b) The sale is not completed upon the expiration of three years since the day when the sale (pre-sale) permit is obtained;

(c) The taxpayer has filed an application for writing-off tax registration but has not handled the formalities for settling the land value-added tax yet;

(d) Other circumstances as prescribed by the provincial tax authorities.

A taxpayer that satisfies the above said provisions shall handle the formalities for settlement within the time limit prescribed by the competent tax authority.

(iii) Collection of land value-added tax by verification

Where a real estate development enterprise is under any of the following circumstances, the tax authority may, by consulting the tax burdens of the local enterprises similar to it in terms of development scale and income level, collect land value-added tax against it by verification on the basis of the levying rate that is not lower than the advance levying rate:

(a) it fails to set up accounting books in accordance with the provisions of laws and regulations;

(b) it destroys the accounting books without authorization or refuses to provide the data of tax payments;

(c) it has established accounting books, but the accounting items are confusing, or its information on costs, revenue vouchers, and expense vouchers are mutilated and incomplete and it is difficult to determine the transfer or amount under the deductible items;

(d) it meets the settlement conditions of land value-added tax, but it fails to go through the settlement formalities within the prescribed time limit, or it is ordered by the tax authority to conduct settlement within a certain time limit but still fails to do so upon the expiration of the time limit; or

(e) the taxable basis declared is obviously much lower, and without reasonable ground.

On 12 May 2009, the State Administration of Taxation issued the "Notice on Administration and Procedure of the Settlement of Land Value-added Tax"《國家稅務總局關於印發《土地增值稅清算管理規程》的通知》, the content of which is consistent with the notice issued on 28 December 2008, with respect to the settlement of land value-added tax on a project by project basis, settlement requirement for land value-added tax and collection of land value-added tax by verification.

Further, the Notice lays down the specific conditions and key issues for calculation of the deductible expenses when settling land value-added tax, such as land premium, land requisition fee, common ancillary facility fee, indirectly fee, etc.

(d) Deed tax

Pursuant to the "Interim regulations of the People's Republic of China on Deed Tax"《中華人民共和國契稅暫行條例》enacted by the State Council on 7 July 1997 and enforced on 1 October 1997, the transferee, whether an entity or individual, of the title to a land site or building in the PRC shall have to pay deed tax. The rate of deed tax is 3% – 5%. The governments of provinces, autonomous regions and municipalities directly under the central government may, within the foresaid range, determine and report their effective tax rates to the MOF and the State Administration of Taxation for the record.

On 22 October 2008, the Ministry of Finance and State Administration of Taxation issued the "Notice on the Adjustments to Taxation on Real Estate Transactions"《財政部國家稅務總局關於調整房地產交易環節稅收政策的通知》. According to the Notice, the following policies would be implemental in order to encourage first-time purchases of ordinary residential properties:

(a) temporarily decrease the property deed tax to 1% for first-time purchases by individuals of ordinary residential properties with a GFA of 90 sq.m. or below;

(b) temporarily cease to levy the stamp duty on residential properties sold or purchased by individuals; and

(c) temporarily cease to levy the land value-added tax on the residential properties sold by individuals.

(e) Urban land use tax

Pursuant to the "Provisional Regulations of the People's Republic of China Governing Land Use Tax in Cities and Towns"《中華人民共和國城鎮土地使用稅暫行條例》enacted by the State Council on 27 September 1988 and enforced on 1 November 1988, the land use tax in respect of urban land is levied according to the area of relevant land. The annual tax shall be between RMB0.2 and RMB10 per sq.m. of urban land collected according to the tax rate determined by local tax authorities. According to the "Notice on Land Use Tax Exemption of Foreign Investment Enterprises and Institutions of Foreign Enterprises in China" enacted by the MOF on 2 November 1988 and the "Approval on Land Use Tax Exemption of Foreign Investment Enterprises" issued by the State Administration of Taxation on 27 March 1997, land use fee instead of land use tax shall be collected from a foreign investment enterprise. However, the Provisional Regulations of the People's Republic of China Governing Land Use Tax in Cities and Towns was revised by the State Council on 31 December 2006, under which the land use tax would be three times the amount of that of the same tax before which is came into effect as of 1 January 2007. The details rates are as follows:

(i) between 1.5 yuan and 30 yuan in large cities;

(ii) between 1.2 yuan and 24 yuan in medium cities;

(iii) between 0.9 yuan and 18 yuan in small cities;

(iv) between 0.6 yuan and 12 yuan in county towns, towns/bases operated under an organizational system, and industrial and mining districts.

According to the provisional regulations, land use tax shall be collected from foreign invested enterprises, foreign enterprises and foreign individuals.

On 11 June 2007, SAT issued the "Notice on Cancelling Certain Administrative Examination and Approval Items for Local Taxes"《關於取消部分地方稅行政審批項目的通知》, which came into force as of the date of its issuance. Under this notice, certain preferential treatments of land use tax have been canceled as follows:

(a) for certain infrastructure construction projects, in particular the large-scale infrastructure construction projects supported by relevant national industry policies, which need large areas of land and long-term construction but without operational revenue during the construction period, the exemption or reduction of land use tax may be granted by the taxation bureau at the provincial level based on the specified situations.

(b) for the real estate development enterprises that have difficulty in paying the land use tax prior to the sale of commercial real estates, the exemption or reduction of land use tax may be granted by the taxation bureau at the provincial level based on the specified situations.

(c) the exemption or reduction of land use tax as a benefit for using land for port construction, electric power industry and coal industry.

(f) Buildings tax

Under the "Interim Regulations of the People's Republic of China on Buildings Tax" 《中華人民共和國房產稅暫行條例》enacted by the State Council on 15 September 1986 and enforced on 1 October 1986, buildings tax shall be 1.2% if it is calculated on the basis of the residual value of a building, and 12% if it is calculated on the basis of the rental. The following categories of buildings shall be exempt from buildings tax:

(i) a building of governmental agencies, people's organizations and the armed forces for their own use;

(ii) a building of institutions whose operating expenses are allocated by State finance departments for their own use;

(iii) a building religious temples and shrines' parks and places of historic interest and scenic beauty for their own use;

(iv) a building owned by individuals for non-business purposes;

(v) tax exemption approved by the Ministry of Finance for other buildings.

On 31 December 2008, the State Council decided to abolish the urban real estate tax (城市房地產稅) applicable to foreign-funded enterprises, foreign individual and entities and since 1 January 2009, the urban real estate tax has been substituted by the real estate tax (房產稅), which as a result has been applicable to both local and foreign entities and individuals.

(g) Stamp duty

Under the "Interim regulations of the People's Republic of China on Stamp Duty"《中華人民共和國印花稅暫行條例》enacted by the State Council on 6 August 1988 and enforced on 1 October 1988, for property rights transfer instruments, including those in respect of property ownership transfer, the rate of stamp duty shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including Realty Title Certificates and land use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

(h) Municipal maintenance tax

Under the "Interim Regulations of the People's Republic of China on Municipal Maintenance Tax"《中華人民共和國城市維護建設稅暫行條例》enacted by the State Council on 8 February 1985, any taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county and a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town. Under the "Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises"《關於外商投資企業和外國企業暫不徵收城市維護建設稅和教育費附加的通知》and the "Approval on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-Invested Freightage Enterprises"《關於外商投資貨物運輸企業免徵城市維護建設稅和教育費附加問題的批覆》issued by State Administration of Taxation on 25 February 1994 and on 14 September 2005 respectively, whether foreign investment enterprises are subject to municipal maintenance tax shall be determined in accordance with notices issued by the State Council; and such tax is not applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

(i) Education surcharge

Under the "Interim Provisions on Imposition of Education Surcharge"《徵收教育費附加的暫行規定》enacted by the State Council on 28 April 1986 and revised on 7 June 1990 and 20 August 2005, a taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the "Notice of the State Council on Raising Funds for Schools in Rural Areas"《關於籌措農村學校辦學經費的通知》. Under the "Supplementary Notice Concerning Imposition of Education Surcharge"《關於教育費附加徵收問題的補充通知》issued by the State Council on 12 October 1994, the "Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises"《關於外商投資企業和外國企業暫不徵收城市維護建設稅和教育費附加的通知》and the "Reply on

Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-Invested Freightage Enterprises"《關於外商投資貨物運輸企業免徵城市維護建設稅和教育費附加問題的批覆》issued by State Administration of Taxation on 25 February 1994 and on 14 September 2005 respectively, whether foreign investment enterprises are subject to the education surcharge shall be determined in accordance with notices issued by the State Council; and such tax is not applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

E. MEASURES ON ADJUSTING THE STRUCTURE OF HOUSING SUPPLY AND STABILIZING HOUSING PRICE

The General Office of the State Council enacted the "Notice on Effectively Stabilizing Housing Prices"《關於切實穩定住房價格的通知》on 26 March 2005, requiring measures to be taken to restrain the housing price from increasing too fast and to promote the healthy development of the property market. On 9 May 2005, the General Office of the State Council issued the "Opinion of the Ministry of Construction and other Departments on Doing a Good Job of Stabilizing House Prices" 《國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知》, the opinion provides that:

(a) Intensifying the planning and control and improving the supply structure of houses

Where the residence price is in excessive growth and where the supply of ordinary commodity houses with medium or low price and economical houses is insufficient, construction of residential properties should mainly involve projects of ordinary commodity houses with medium or low price and economical houses. The construction of low-density, up-market houses shall be strictly controlled. With respect to construction projects of medium or low price ordinary commodity houses, before any grant of land, the municipal planning authority shall, according to the level of control required, set out conditions for planning and design such as height of buildings, plot ratio and green space. The property authority shall, in collaboration with other relevant authorities, set forth such controlling requirements as sale price, type and apartment sizes. Such conditions and requirements will be set out as preconditions of land granting to ensure an effective supply of small or medium-sized houses at moderate and low prices. The local government must intensify the supervision of planning permits for property development projects. Residential projects that have not commenced within two years must have their plans examined again, and those that turn out to be not in compliance with the planning permits will be revoked.

(b) Intensifying the control over the supply of land and rigorously enforcing the administration of land

Where the price of land for residential use and residential properties grows too fast, the proportion of land for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses with medium or low price and economical housing should be emphatically increased. Land supply for villa construction shall continue to be suspended, and land supply for high-end housing property construction shall be strictly restricted.

(c) Adjusting the policies of business tax on residential property house transfer and strictly regulating the collection and administration of tax

From 1 June 2005, business tax on transfer of a residential property by an individual within two years from purchase will be levied on the basis of the full amount of the sale proceeds. Transfer of an ordinary residential property by an individual two years or more after purchase shall be exempted for business tax. For transfer of a house other than ordinary residential property by an individual two years or more after purchase, the business tax will be levied on the basis of the balance between the proceeds from selling the property and the purchase price.

(d) Strictly Rectifying and Regulating the Market Order and Seriously Investigating into and Punishing Any Irregular and Rule-breaking Sales

The buyer of a pre-completion commodity property is prohibited from conducting any transfer of the pre-sale commodity property that he has bought but is still under construction. A real name system for property purchase should be applied, and an immediate archival filing network system for advance sales contracts of commodity properties should be carried out.

(e) Further Strengthening the Disposing of Idle Land

An "idle land fee" will be imposed in respect of land the development of which has not commenced within one year from the commencement date set out in the land use right granting contract and the relevant land use right will be cancelled for the land which is idle for two years or more.

On 24 May 2006, the State Council forwarded the "Opinion on Adjusting the Housing Supply Structure and Stabilizing Property Prices"《關於調整住房供應結構穩定住房價格的意見》(the "Opinion") of the Ministry of Construction and other relevant government authorities. The Opinion provides the following:

i. Adjusting the Housing Supply Structure

- Developers must focus on providing small to medium sized ordinary commodity properties at low to mid-level prices to cater to the demands of local residents;

- As of 1 June 2006, newly approved and newly commenced building construction projects must have at least 70% of the total construction work area designated for small apartments with floor areas of 90 sq.m. or below (including economically affordable apartments). If municipalities directly under the Central Government, cities listed on state plans (計劃單列市) and provincial capital cities (省會城市) have special reasons to adjust such prescribed ratio, they must obtain special approval from the Ministry of Construction. Construction projects that have been approved but have not yet obtained a Permit for Commencement of Construction Works must follow the prescribed ratio.

ii. Further adjustments in tax, loan and land policies

- From 1 June 2006, business tax will be levied on the full amount of the sale proceeds on conveyance of residential properties within a period of five years from the date of purchase. If an individual sells his ordinary standard apartment after five or more years from the date of purchase, business tax will normally be exempted. If an individual sells his non-ordinary apartment after five or more years from the date of purchase, business tax will be levied on the balance between the selling price and the purchase price;

- Commercial banks are not allowed to advance loan facilities to real estate developers who do not have the required 35% or more of the total capital for the construction projects as capital fund. The commercial banks should be prudent in granting loan facilities and/or revolving credit facilities in any form to the real estate developers who have a large number of idle lands and unsold commodity apartments. Banks shall not accept mortgages of commodity properties remaining unsold for three years or more;

- From 1 June 2006 and onward, individual purchasers need to pay a minimum of 30% of the purchase price as down payment. However, if individual purchasers buy apartments of 90 sq.m. or less for residential purposes, the existing requirement of 20% of the purchase price as down payment remains unchanged;

- At least 70% of the total land supply for residential property development must be used for developing small-to-medium-sized ordinary apartment (including economically affordable apartments) and low-cost housing. Based on the restrictions of residential property size ratio and residential property price, land supply will be granted by way of auction to the property developer. Land supply for villa construction shall continue to be suspended, and land supply for low-density and large-area housing property construction shall be strictly restricted;

- The relevant authorities will levy a higher surcharge against those real estate developers who have not commenced the construction work for longer than one year from the commencement date stipulated in the Grant of State-owned Land Use Right contract and will order them to set a date for commencing the construction work and a date of completion. The relevant authorities will confiscate without compensation the Grant of State-owned Land Use Right from those real estate developers who have not commenced the construction work beyond two years from the commencement date stipulated in the Grant of State-owned Land Use Right granting contract without proper reasons. The relevant authorities will dispose of the idle land of those real estate developers who have suspended the construction work consecutively for one year without an approval, have invested less than one-fourth of the total proposed investment or have developed less than one-third of the total proposed construction area.

iii. Reasonably Monitoring the Scope and Progress of Demolition of Urban Housing

The management and reasonable control of the scope and progress of the demolition of urban housing should be strengthened to halter the excessive property growth triggered by passive means.

iv. Further Rectifying and Regulating the Order of Property Market

- In order to ensure that the prescribed ratio regarding types and sizes is followed, the relevant authorities will need to re-examine the approval of those construction projects which have been granted Construction Planning Permit but have not been commenced. The relevant authorities will ensure that no Construction Planning Permit (規劃許可證), Construction Permit (施工許可證) or Permit for Pre-Sale of Commodity Properties (商品房預售許可證) is issued to those construction projects which do not satisfy the controlling requirements, in particular, the prescribed ratio requirement. If the real estate developers, without an approval, alter the architectural design, the construction items, and exceed the prescribed ratio, the relevant authorities have the power to dispose of the land and to confiscate the land in accordance with the law;

- The property administration authority and the administration of industry and commerce will investigate illegal dealings such as contract fraud cases in accordance with the law. The illegal conduct of pre-completion sale of commodity properties without satisfying all the conditions will be ordered to stop and be imposed a proper administrative penalty in accordance with the law. For those property developers who maliciously manipulate the supply of commodity housing, the relevant authorities will impose a proper administrative penalty, which includes revoking the business licenses of serious offenders and will pursue personal liability for those concerned.

v. Gradually relieving the housing demands for low income families

To expedite the establishment of low cost public housing supply system in various cities and counties; to monitor and regulate the construction of economically affordable apartments; to aggressively develop the second-hand property market and property rental market.

vi. Improving information disclosure system and system for collecting property statistics

On 6 July 2006, the Ministry of Construction promulgated a "Supplemental Opinion on Carrying Out the Residential Property Size Ratio in Newly Built Residential Buildings" (Jianzhufang [2006] No. 165)《關於落實新建住房結構比例要求的若干意見》(the "Supplemental Opinion"). The Supplemental Opinion provides the following:

- As of 1 June 2006, of the newly approved and newly commenced commodity residence projects in different cities including town and counties (from 1 June 2006 and onward), at least 70% of the total construction area must be used for building small apartments with unit floor area of 90 sq.m. or below (including economically affordable apartments);

- The relevant authorities in different localities must strictly follow the prescribed ratio requirement in their respective locality. The relevant authorities must ensure the conditions of newly built commodity apartments including the planning and the design, and must ensure that the property size ratio is adhered to. If a real estate developer has not followed the ratio requirement without providing proper reasons, the town planning authorities will not issue a Construction Planning Permit. If the real estate developer has not followed the requirements of the Construction Planning Permit, the relevant authority censoring the planning documents will not issue a certification, the construction authority will not issue a Construction Permit, and the property authority will not issue a Permit for pre-completion sale of the commodity properties.

In the case of commodity residence projects that were granted approval before 1 June 2006 but that were not granted a Construction Permit by that date, the relevant local governments in different localities should ascertain the details of the projects and ensure that the prescribed residential property size ratio requirement is complied with the percentage of the annual total construction area of the newly developed residential development projects in the locality among other factors.

On 30 September 2007, the Ministry of Land Resources issued the "Notice On Implementation of the 'Several Opinions of the State Council of the PRC on Solving Housings Shortage with respect to Urban Low-Income Household' and Further Strengthening Control on Land Supply"《關於認真貫徹<國務院關於解決城市低收入家庭住房困難的若干意見>進一步加強土地供應調控的通知》for strictly strengthening disposal of idle land. The land resources administrative bureau at the city or county level shall give priority to the construction land of low rental houses, affordable house and low-to-medium size ordinary residence at low-to-medium prices when drafting the Annual Land Supply Plan, the annual supply amount of such houses shall not be less than 70% of the total amount of annual land supply. The local authorities shall control the land supply amount, shorten development period, in principle the development period of a parcel of land shall not be more than three years, in order to ensure the efficiency of land development.

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 Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) which are required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Nature of interests	Number of Shares (Long position)	Number of underlying Shares in respect of the Share Options granted under the Share Option Scheme	Percentage of shareholding (approximate)
Mr. Zhang Xi	Beneficial interests	1,592,826,000	91,617,000	4.78%
Ms. Catherine Chen	Beneficial interests	–	91,617,000	0.26%

All the interests disclosed above represent long position in the shares or underlying shares of the Company.

Note: The Share Options were granted to Mr. Zhang Xi and Ms. Catherine Chen to subscribe for Shares pursuant to the Share Option Scheme. The Share Options were exercisable at HK$0.041 per Share and will expire on 13 July 2011.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position 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 are required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there is no existing or proposed service contract between any of the Directors and any member of the Enlarged Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. INTERESTS IN CONTRACT OR ARRANGMENT

Save for the interests of the Vendor in the Acquisition Agreement and the Capital Increase Agreement and the respective transactions contemplated thereunder, 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.

5. INTERESTS IN ASSETS

As at the Latest Practicable Date, save for the Vendor's interests in the Target Group, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2009, the date to which the latest published audited financial statements 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' INTEREST IN COMPETING INTEREST

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

7. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Enlarged Group within two years immediately preceding the Latest Practicable Date and which are, or may be, material to the Enlarged Group:

(a) the Acquisition Agreement;

(b) the Capital Increase Agreement;

(c) the joint venture agreement and the articles of association both dated 28 May 2010 and entered into by the Target Company and Chengdu Hongbang in respect of Xi'an Yuansheng;

(d) a sale and purchase deed dated 4 December 2009 entered into between Fulbond Investments Limited, which was a wholly-owned subsidiary of the Company, as vendor, the Company, Sincerity Shine Holdings Limited as purchaser and Li Geng as the guarantor of the purchaser in respect of the sale and purchase of the entire issued share capital of Prowealth Holdings Group Limited at the consideration of HK$165,000,000;

(e) the Placing Agreement in relation to the placing of the Fulbond Convertible Notes;

(f) a deed of charge dated 17 October 2008 entered into between Wise Virtue Holdings Limited, Fulbond Investments Limited, which was a wholly-owned subsidiary of the Company, and the Company, pursuant to which 6,667 ordinary shares of US$1.00 each in the share capital of Prowealth Holdings Group Limited were charged by Fulbond Investments Limited in favour of Wise Virtue Holdings Limited;

(g) a deed of charge dated 17 October 2008 entered into between Sun Boom Limited, Fulbond Investments Limited, which was a wholly-owned subsidiary of the Company, and the Company, pursuant to which 1,667 ordinary shares of US$1.00 each in the share capital of Prowealth Holdings Group Limited were charged by Fulbond Investments Limited in favour of Sun Boom Limited;

(h) a guarantee dated 7 December 2009 entered into between Hansen Village Branch of Xi'an New City District Rural Credit Cooperative Association as lender and Xi'an Yuansheng as the guarantor of Xi'an Wing Hang Industry Co., Ltd. for the repayment of a loan in the principal amount of RMB2.8 million;

(i) a loan agreement dated 14 September 2009 entered into among Xincheng Branch of Xi'an City Commercial Bank as lender, Xi'an Kingtone Information Technology Co., Ltd. as borrower and Xi'an Yuansheng as the guarantor of the borrower for a loan in the principal amount of RMB23.5 million, pursuant to which Xi'an Yuansheng has created the Land Charge in favour of Xincheng Branch of Xi'an City Commercial Bank as security for the repayment of loan;

(j) a guarantee dated 14 September 2009 entered into between Xincheng Branch of Xi'an City Commercial Bank as lender and Xi'an Yuansheng as the guarantor of Xi'an Kingtone Information Technology Co., Ltd. for the repayment of a loan in the principal amount of RMB23.5 million;

(k) a charge dated 14 September 2009 entered into between Xi'an Yuansheng as chargor and Xincheng Branch of Xi'an City Commercial Bank as chargee in relation to a loan in the principal amount of RMB23.5 million borrowed by Xi'an Kingtone Information Technology Co., Ltd., pursuant to which Xi'an Yuansheng has created the Land Charge in favour of Xincheng Branch of Xi'an City Commercial Bank as security for the repayment of loan;

(l) a loan agreement dated 27 February 2009 entered into among Xincheng Branch of Xi'an City Commercial Bank as lender, Xi'an Xinrong Technology Industry (Group) Co., Ltd. as borrower and Xi'an Yuansheng as the guarantor of the borrower for a loan in the principal amount of RMB51 million, pursuant to which Xi'an Yuansheng has created the Land Charge in favour of Xincheng Branch of Xi'an City Commercial Bank as security for the repayment of loan;

(m) a guarantee dated 27 February 2009 entered into between Xincheng Branch of Xi'an City Commercial Bank as lender and Xi'an Yuansheng as the guarantor of Xi'an Xinrong Technology Industry (Group) Co., Ltd. for the repayment of a loan in the principal amount of RMB51 million; and

(n) a charge dated 27 February 2009 entered into between Xi'an Yuansheng as chargor and Xincheng Branch of Xi'an City Commercial Bank as chargee in relation to a loan in the principal amount of RMB51 million borrowed by Xi'an Xinrong Technology Industry (Group) Co., Ltd., pursuant to which Xi'an Yuansheng has created the Land Charge in favour of Xincheng Branch of Xi'an City Commercial Bank as security for the repayment of loan.

9. 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 December, 2009, being the date to which the latest audited consolidated financial statements of the Group were made up.

10. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular:

Names	Qualifications
Guangdong Securities	a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Asset Appraisal Limited	Independent professional valuer
Commerce & Finance Law Offices	PRC legal advisors

The letter and report from Guangdong Securities, Deloitte Touche Tohmatsu and Asset Appraisal Limited are given as of the date of this circular for incorporation in this circular.

11. CONSENTS

Each of Guangdong Securities, Deloitte Touche Tohmatsu, Asset Appraisal Limited and Commerce & Finance Law Offices has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports, letters and/or opinions, as the case may be, and references to its names in the form and context in which it appears.

As at the Latest Practicable Date, none of Guangdong Securities, Deloitte Touche Tohmatsu, Asset Appraisal Limited and Commerce & Finance Law Offices had any shareholding in any member of the 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 Group.

As at the Latest Practicable Date, none of Guangdong Securities, Deloitte Touche Tohmatsu, Asset Appraisal Limited and Commerce & Finance Law Offices had any direct or indirect interest in any assets which have been, since 31 December 2009, the date of which the latest published audited financial statements 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.

12. CORPORATE INFORMATION

(a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The head office and principal place of business of the Company in Hong Kong is located at Unit 2807, 28th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong.

(b) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Chow Kim Hang, who is a practicing solicitor in Hong Kong.

(d) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Unit 2807, 28th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the SGM:

(a) the Memorandum of Association and bye-laws of the Company;

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

(c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 40 of this circular;

(d) the letter of advice from Guangdong Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 41 to 61 of this circular;

(e) the consent letters from Guangdong Securities, Deloitte Touche Tohmatsu, Asset Appraisal Limited and Commerce & Finance Law Offices referred to in the paragraph headed "Consents" in this Appendix;

(f) the accountants' report of the Target Company from Deloitte Touche Tohmatsu, the text of which is set out in Appendix IIA to this circular;

(g) the accountants' report of the Xi'an Yuansheng from Deloitte Touche Tohmatsu, the text of which is set out in Appendix IIB to this circular;

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

(i) the valuation report prepared by Asset Appraisal Limited, the text of which is set out in Appendix V to this circular;

(j) the annual reports of the Company for the two years ended 31 December 2008 and 2009; and

(k) this circular.

福 邦 控 股

Fulbond Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1041)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of Fulbond Holdings Limited (the "**Company**") will be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 20 July 2010 at 11:00 a.m. or any adjournment(s) thereof, for the purpose of considering and, if thought fit, passing with or without modification, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the sale and purchase agreement dated 1 June 2010 (the "**Acquisition Agreement**", a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) entered into between Mr. Zhang Xi as vendor (the "**Vendor**") and Good Base Investments Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the sale and purchase of (i) one share of US$1.00 each in the share capital of Allywing Investments Limited and (ii) the shareholder's loan due and owing to the Vendor by Allywing Investments Limited as at the date of completion of the Acquisition Agreement upon and subject to the terms and conditions as set out therein and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary, desirable or expedient for the purposes of or in relation to implementing, completing and giving effect to the Acquisition Agreement and the transactions contemplated thereunder and to agree to such variations of the terms of the Acquisition Agreement as he/she may in his/her absolute discretion consider necessary or desirable."

2. "**THAT**

(a) the creation and issue by the Company of non-interest bearing convertible redeemable notes in the maximum aggregate principal sum of HK$350,000,000 due on 28 December 2012 (the "**Second Tranche Convertible Notes**"), convertible into new shares in the capital of the Company on and subject to the terms and conditions (the "**CN Conditions**") contained in the placing agreement dated 6 August 2009 (as supplemented and amended by side letters made between the Company and the placing agent on 24 September 2009 and 2 June 2010, respectively) (the "**Placing Agreement**") (a copy of which has been produced to this meeting marked "B" and initialled by the chairman of the meeting for the purpose of identification) between the Company and the placing agent, Kingston Securities Limited (as may be amended from time to time) in respect of, inter alia, the placing of the Second Tranche Convertible Notes be and is hereby generally and unconditionally approved in all respects;

(b) the directors of the Company be and are hereby generally and specifically authorized to issue the Second Tranche Convertible Notes on and subject to the terms of the Placing Agreement (as may be amended from time to time) and the CN Conditions;

(c) the directors of the Company be and are hereby generally and specifically authorized to issue the Second Tranche Convertible Notes approved to be issued under paragraph (a) of this resolution up to the maximum aggregate principal sum of HK$350,000,000 and to allot and issue such number of new shares (the "**Specific Mandate**") as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Second Tranche Convertible Notes on and subject to the terms and conditions of the Placing Agreement (as may be amended from time to time) and the CN Conditions. The Specific Mandate is in addition to, and shall not prejudice nor revoke the existing general mandate granted to the directors of the Company by the shareholders of the Company in the annual general meeting of the Company held on 8 June 2010 or such other general or specific mandate(s) that may have been granted to the directors of the Company prior to the passing of this resolution;

(d) any one director of the Company be and is hereby authorized to sign, seal, execute, perfect, deliver all such documents and to do all such things and acts (including but not limited to the extension of the long stop date for satisfaction of the condition precedent for completion of placing of the Second Tranche Convertible Notes) as he/she may in his/her discretion consider necessary, expedient or desirable to effect (i) the transactions contemplated under the Placing Agreement (as may be amended from time to time) and the issue of the Second Tranche Convertible Notes and/or (ii) the amendment, variation or modification of the Placing Agreement (as may be amended from time to time) (including any amendment, variation or modification of the CN Conditions) upon such terms and conditions as the board of directors of the Company may think fit; and

(e) in the event that completion of the issue of the Second Tranche Convertible Notes has not taken place in full by a date falling on the expiry of 3 calendar months after the passing of this resolution (the "**Expiry Date**"), the authorization and approval granted under this resolution shall be revoked and shall expire by the end of the Expiry Date provided that nothing shall affect the Placing Agreement, the Specific Mandate and the transactions contemplated thereunder that has taken place on or before the Expiry Date (including but not limited to the issue of the Second Tranche Convertible Notes under partial completion) and the transactions contemplated to take place after the Expiry Date as a result thereof (including but not limited to the allotment and issue of the new shares as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Second Tranche Convertible Notes in issue on the Expiry Date), and the authorization and approval granted under this resolution in respect thereof shall remain valid and shall be in full force and effect in all respects accordingly."

By Order of the Board
Fulbond Holdings Limited
Zhang Xi
Chairman

Hong Kong, 28 June 2010

Head Office and principal place of business in Hong Kong:
Unit 2807, 28/F.,
The Center
99 Queen's Road Central
Central
Hong Kong

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Notes:

1. A member of the Company entitled to attend and vote at the SGM convened by the notice of SGM is entitled to appoint one proxy or more proxies to attend and, on a poll, vote instead of him at the SGM. A proxy need not be a member of the Company.

2. To be valid, a form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof.

3. In the case of joint 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 are present at the meeting personally or by proxy, then 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.

4. Completion and return of this accompanying form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

As at the date of this notice, the Board comprises six executive Directors, namely Mr. Zhang Xi, Ms. Catherine Chen, Mr. Yeung Kwok Yu, Mr. Lee Sun Man, Mr. Kwan Kam Hung, Jimmy and Mr. Wah Wang Kei, Jackie; and four independent non-executive Directors, namely Mr. Hong Po Kui, Martin, Mr. Yu Pan, Ms. Ma Yin Fan and Mr. Leung Hoi Ying.