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

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**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 accountant or other professional adviser.

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

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**ETERNITY INVESTMENT LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 764)**

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

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A notice convening the special general meeting of Eternity Investment Limited to be held at Macau Jockey Club, 1/F Function Room, 1st Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Thursday, 3 November 2011 at 3:00 p.m. (or any adjournment thereof) is set out on pages 185 to 186 of this circular. Whether or not you intend to attend the special general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

17 October 2011

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## DEFINITIONS

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*In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:*

“Acquisition”	the proposed acquisition of the Sale Shares by the Purchaser from the Vendor in accordance with terms and conditions of the Sale and Purchase Agreement
“Acquisition Price”	HK\$283.00 million (subject to adjustment), being the consideration for the Sale Shares payable by the Purchaser to the Vendor pursuant to the Sale and Purchase Agreement
“Ascott Holdings”	The Ascott Holdings Limited, a company with limited liability and incorporated under the laws of Singapore and the intermediate holding company of the Vendor
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of the Directors
“Building Authority”	the Director of Buildings under the Buildings Ordinance
“Buildings Ordinance”	the Buildings Ordinance, Chapter 123 of the laws of Hong Kong
“Citadines TST”	Citadines Ashley TST (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Vendor
“Citadines TST Management”	Citadines Ashley TST Management (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Vendor
“Company”	Eternity Investment Limited, a company incorporated in Bermuda with limited liability and the Shares are listed on the Main Board of the Stock Exchange

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“Completion”	completion of the sale and purchase of the Sale Shares and the assignment of the Intermediate Holding Company Loans in accordance with terms and conditions of the Sale and Purchase Agreement
“Deed of Assignment”	the deed of assignment to be executed by Ascott Holdings for the assignment of the Intermediate Holding Company Loans to the Purchaser
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged by the Target Companies
“Exempted Works”	has the meaning ascribed to it in the Buildings Ordinance
“Gaming Promoter”	Dore Entretenimento Sociedade Unipessoal Limitada, a licensed gaming promoter for Wynn Macau, Macau Special Administrative Region of the PRC
“Group”	the Company and its subsidiaries
“High Tariff A”	hotels with a composite score between 3.00 and 3.99 according to the Hong Kong Tourism Board hotel classification system, where the score is based on facilities, location, staff-to-room ratio, achieved room rate and business mix. This is the highest standard of hotel classification by the Hong Kong Tourism Board for hotels in Hong Kong of a total of four ratings
“High Tariff B”	hotels with a composite score between 2.00 and 2.99 according to the Hong Kong Tourism Board hotel classification system, where the score is based on facilities, location, staff-to-room ratio, achieved room rate and business mix. This is the second highest standard of hotel classification by the Hong Kong Tourism Board for hotels in Hong Kong of a total of four ratings
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Hong Kong Government”	the Government of Hong Kong
“Hotel and Guesthouse Accommodation Authority”	the Hotel and Guesthouse Accommodation Authority constituted under Section 4 of the Hotel and Guesthouse Accommodation Ordinance
“Hotel and Guesthouse Accommodation Ordinance”	the Hotel and Guesthouse Accommodation Ordinance of Hong Kong, Chapter 349 of the laws of Hong Kong
“Intermediate Holding Company Loans”	the unsecured interest-free loans provided by Ascott Holdings in the principal amounts of (i) HK\$190.40 million to Citadines TST; and (ii) HK\$1.00 million to Citadines TST Management as at 31 December 2010 and remains outstanding at Completion
“Latest Practicable Date”	13 October 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 November 2011 or such other date as the parties may agree in writing
“Material Adverse Effect”	in relation to each of the Target Companies, any change or event that would have a material adverse effect on the business, assets, properties, liabilities, financial condition, operating results or operations, taken as a whole, and any change or event which will result in a diminution in value of each of the Target Companies by an amount exceeding HK\$0.5 million otherwise than in the usual and ordinary course of business or caused by revaluation of the Property or assets of each of the Target Companies will be considered as having a “Material Adverse Effect”

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## DEFINITIONS

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“Medium Tariff”	hotels with a composite score between 1.00 and 1.99 according to the Hong Kong Tourism Board hotel classification system, where the score is based on facilities, location, staff-to-room ratio, achieved room rate and business mix. This is the third highest standard of hotel classification by the Hong Kong Tourism Board for hotels in Hong Kong of a total of four ratings
“Net Current Asset”	the difference between current assets and current liabilities of each of the Target Companies as shown in the unaudited management accounts of each of the Target Companies for the period from 1 January 2011 to the date of Completion, excluding, for the avoidance of doubt, the Intermediate Holding Company Loans and any deferred tax asset and liability
“PRC”	the People’s Republic of China
“Property”	the whole block of “Citadines Ashley Hongkong”, No. 18 Ashley Road, Tsimshatsui, Kowloon, Hong Kong erected on Kowloon Inland Lot No. 9613
“Purchaser”	Golden Stone Management Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Retail Portion”	the ground floor to 3rd floor of the Property
“Rich Daily”	Rich Daily Group Limited, a company incorporated in the British Virgin Islands with limited liability, engaged in provision of management services business and a wholly-owned subsidiary of the Company
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 4 April 2011 (as supplemented by the Supplemental Agreement) entered into between the Vendor and the Purchaser in relation to the sale and purchase of the Sale Shares
“Sale Shares”	one share of HK\$1 in Citadines TST, representing the entire issued share capital of Citadines TST, and one share of HK\$1 in Citadines TST Management, representing the entire issued share capital of Citadines TST Management

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## DEFINITIONS

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“Serviced Apartments Portion”	the 5th floor to 13th floor and the 15th floor to 21st floor of the Property, which are used as serviced apartments with 36 units
“Services Agreement”	the services agreement dated 30 June 2008 and entered into between the Gaming Promoter and Rich Daily in relation to the provision of management services to the concierge department of the Gaming Promoter, which for the avoidance of doubt not including the solicitation of VIP customers for the Gaming Promoter, by Rich Daily
“SFO”	The Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened and held at Macau Jockey Club, 1/F Function Room, 1st Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Thursday, 3 November 2011 at 3:00 p.m. (or any adjournment thereof) to consider and, if thought fit, approve the Sale and Purchase Agreement, the Deed of Assignment and transactions contemplated under the Sale and Purchase Agreement
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 30 September 2011 entered into between the Vendor and the Purchaser in relation to the extension of the Long Stop Date from 30 September 2011 to 30 November 2011
“Target Companies”	Citadines TST and Citadines TST Management
“Termination Notice”	the notice of termination dated 12 September 2011 and served by the Gaming Promoter

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## DEFINITIONS

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“Tourist Guesthouses”	hotels with a composite score of 0.99 or below according to the Hong Kong Tourism Board hotel classification system, where the score is based on facilities, location, staff-to-room ratio, achieved room rate and business mix. This is the lowest standard of hotel classification by the Hong Kong Tourism Board for hotels in Hong Kong of a total of four ratings. Tourist Guesthouses are classified by the Hong Kong Tourism Board using the list provided by Home Affairs Department
“Vendor”	Citadines Ashley TST (Singapore) Pte. Ltd., a company incorporated under the laws of Singapore with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS  
AND STATISTICS AND INFORMATION RELATING TO THE ECONOMY  
AND THE INDUSTRY CONTAINED IN THIS CIRCULAR**

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**FORWARD-LOOKING STATEMENTS**

All statements contained in this circular, statements made in press releases and oral statements that may be made by us or our directors, executive officers or employees acting on our behalf, that are not statements of historical fact, constitute “forward-looking statements”. You can identify some of these statements by forward-looking terms such as “expect”, “believe”, “plan”, “intend”, “estimate”, “anticipate”, “may”, “will”, “would”, and “could” or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial position, business strategy, plans and prospects are forward-looking statements. These forward-looking statements, including statements as to our revenue and profitability, cost measures, planned strategy and any other matters discussed in this circular regarding matters that are not historical facts are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Given the risks and uncertainties that may cause our actual future results, performance or achievements to be materially different from that expected, expressed or implied by the forward-looking statements in this circular, we advise you not to place undue reliance on those statements. We are not warranting or representing to you that our actual future results, performance or achievements will be as discussed in those statements.

**RELIABILITY OF CERTAIN STATISTICS AND INFORMATION RELATING TO  
THE ECONOMY AND THE INDUSTRY**

Statistics, industry data and other information relating to the economy and the industry contained in this circular have been derived from various official government publications with information provided by different government agencies. Although the Board believes that the sources of the information and statistics are appropriate sources for such information and statistics and has taken reasonable care in extracting and reproducing such information and statistics, and has no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading, no guarantee can be made as to the accuracy or completeness of such information and statistics. None of the Company, or their respective directors, agents or advisers have prepared or independently verified the

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS  
AND STATISTICS AND INFORMATION RELATING TO THE ECONOMY  
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accuracy or completeness of such information directly or indirectly derived from official government sources. Statistics, industry data and other information relating to the economy and the industry derived from official government sources may not be consistent with other information available from other sources and should not be unduly relied upon.

Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from official government sources might be inaccurate or might not be comparable to statistics produced from other sources. Careful consideration should be given as to how much weight or importance should be attached or placed on such statistics, projected industry data and other information relating to the economy and the industry.

### INDUSTRY OVERVIEW

According to the Hong Kong Economic Report released in February 2011 prepared by Economic Analysis Division, Economic Analysis and Business Facilitation Unit, Financial Secretary's Office, Government of the Hong Kong Special Administrative Region, the overall economic performance of Hong Kong and property market of Hong Kong have the following facts in year 2010:

#### **Hong Kong economic overview in 2010**

- The Hong Kong economy staged a broad-based expansion in 2010, having successfully overcome the severe challenges from the global recession of 2009. Both the external and domestic sectors fared strongly in the year. For 2010 as a whole, the economy grew robustly by 6.8%, more than offsetting the 2.7% contraction in 2009.
- Merchandise exports sprang back sharply following the steep contraction in 2009, sustaining rapid double-digit year-on-year growth during most of 2010 and surpassing the 2008 peak by some margin. The Asian markets continued to outperform the United States of America ("US") and European Union ("EU") markets, mirroring the two-speed recovery in the global economy. Although the US and EU markets also staged a rebound, exports to these markets had yet to make up for the declines in 2009. Export growth momentum tapered somewhat towards the year-end, as the growth pace of some overseas markets moderated.
- Exports of services maintained strong momentum across the board throughout 2010. Inbound tourism surged on strong influx of visitors from all major markets. Exports of trade-related and transportation services also grew strongly as trade flows revived markedly. Exports of financial and business services expanded sizably, supported by thriving fundraising activities and robust business conditions.
- The domestic sector also held up well in 2010. Private consumption expenditure was strong throughout the year, supported by improving labour market and income conditions. Investment staged a notable rebound amid sanguine business sentiments. The surge in public sector building and construction activities also supported domestic demand.
- The labour market saw widespread and notable improvements during 2010. Total employment rose to an all-time high in late 2010, surpassing the previous peak in early 2008. Job vacancies likewise surged. With improving labour demand, the seasonally adjusted unemployment rate came down progressively to 4.0% in the fourth quarter of 2010. Wages and earnings rose back in tandem.

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## INDUSTRY OVERVIEW

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- Local stock prices ended 2010 moderately higher than a year ago, intertwined with episodes of fluctuations caused by shifting sentiments in global financial markets. Local property market was hectic in 2010, with residential property prices rising by 20% during the year. The Hong Kong Government has stayed alert to the risks of housing market bubble, and has rolled out five rounds of measures over the course of the year to ensure healthy and stable development of the market.
- Inflation rose back progressively in 2010, driven mainly by higher import prices from rising global food and other commodity prices, rising inflation in import sources and a slightly weaker US dollar. Domestic cost pressures, especially from the rental front, also turned more visible alongside the robust economic conditions. In 2010, underlying inflation averaged at 1.7%, up from 1.0% in 2009. Yet the phenomenon of rising inflation also featured in many other Asian economies where economic growth was vibrant.

Inflation was on a gradual uptrend over the course of 2010, due mainly to higher imported inflation, resulting from the surge in global food and other commodity prices, rising inflation in supply sources, and to a lesser extent the slightly weaker Hong Kong dollar alongside the US dollar. Domestic price pressures, particularly from the rental front, also re-emerged in 2010, along with the robust expansion of the local economy.

The Composite Consumer Price Index (Composite CPI) rose by an average of 2.4% in 2010, faster than the 0.5% increase in 2009. On a year-on-year comparison, underlying consumer price inflation went up progressively, from 0.8% in the first quarter of 2010, to 1.5% and 2.0% respectively in the second and third quarters, and further to 2.6% in the fourth quarter.

Despite the Hong Kong Government launched numbers of measures over the past few months to reduce the overheating in the property market, the demand for real assets may further strengthened as the overall economic fundamentals of Hong Kong improved. In addition, inflation pressures will eventually shifting the money into property market for hedging purpose.

The Hong Kong best lending rate fell to 5% from 5.25%, and has remained at that level since 2009.

In light of (i) the economy of Hong Kong grew strongly by 6.8% in real terms in 2010, but leading to the inflation went up progressively; (ii) Asian markets continued to outperform the US and EU markets after the global financial crisis in 2008; (iii) inbound tourism of Hong Kong put up a strong performance in 2010 on the back of sustained global

economic recovery; (iv) the private consumption expenditure was strong throughout the year, supported by improving labour market and income conditions; (v) unemployment rate declined; (vi) Hong Kong stock market rebounded and recorded higher than 2009; and (vii) Hong Kong property market boomed, the economy of Hong Kong staged a full recovery at a faster pace than expected.

### PROPERTY SECTOR OVERVIEW IN 2010

- Underpinned by the further recovery of the economy, abundant liquidity and extremely low interest rates, the residential property market was buoyant through most parts of 2010. Transaction volume reached a record high since 1997, while overall flat prices soared by another 20% during the year.
- The Hong Kong Government introduced a package of measures to ensure a stable and healthy property market in February 2010, and rolled out further packages over the course of the year in response to the changes in the housing market. The measures have achieved noticeable results in raising flat supply, increasing transparency of the property market, preventing excessive growth of mortgage lending and curbing speculative activities.
- But the Federal Reserve of United States's introduction of the second round of quantitative easing measures in November 2010 further raised the risk of a property market bubble, and prompted the Hong Kong Government to introduce the Special Stamp Duty on short-term resale transactions and further tighten the loan-to-value ratio for mortgage loans.
- Inbound tourism put up a strong performance in 2010, with incoming visitor arrivals surging to a record high of 36.0 million. Visitors from all major markets, especially the Mainland, registered notable growth.
- The logistics sector also staged a solid rebound in 2010 alongside the strong growth in external trade, though the pace decelerated in the second half as the base of comparison gradually shifted higher.

The residential property market remained buoyant through most parts of 2010, underpinned by the further recovery of the economy. Amid the abundant liquidity environment with exceptionally low interest rates, the number of sale and purchase agreements for residential property received by the Land Registry surged by 18% to 135,778 in 2010, and total consideration by an even sharper 32% to \$560.7 billion, both the highest levels since 1997. Within the total, the number of secondary transactions jumped by 23%, while the number

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## INDUSTRY OVERVIEW

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of primary sales fell by 16%. Transactions increased across all consideration ranges except for flats valued below \$1 million. Residential property prices rose further in tandem. In December 2010 overall flat prices surged by another 20% over a year earlier, following a 29% rebound in the preceding year. With the exuberance gradually spreading from the luxury market to the mass market over the course of the year, prices of small/medium-sized flats soared by 21%, faster than the 16% increase recorded for large flats. Following the rally over the past two years, overall flat prices in December 2010 were only 6% below the 1997 peak, and prices of large flats have even surpassed the 1997 peak by 11%.

The commercial and industrial property markets also firmed up further, underpinned by the sustained economic recovery. For office space, transactions soared by 45% to 3,700 in 2010, though still 11% below the recent peak in 2007. Overall sale prices jumped by 23% between December 2009 and December 2010, with Grade A, B and C office space registering gains of 22%, 24% and 23% respectively. Office rentals also rose steadily through the year, albeit by a less rapid 14%. The rise in rentals of Grade A, B and C office space was largely similar, at 14%, 12% and 12% respectively. Following the rally since 2009, overall office prices have already exceeded their 2008 peak by a wide margin, but rentals were still slightly lower. In December 2010, the average rental yields for Grade A, B and C office space were 3.2%, 3.6% and 3.9% respectively, lower than the 3.3%, 4.0% and 4.2% a year earlier. Reflecting the solid demand against relatively low completion, the overall vacancy rate for office space fell visibly from 10.3% at end-2009 to 8.0% at end-2010.

The robust retail sector rendered a strong support to the market for retail shop space in 2010. Transactions surged by another 43% to 7,700, the highest level since 2004. In tandem with the buoyant activities, sale prices soared by 29% between December 2009 and December 2010, while rentals rose by a less rampant but still substantial 10%. As a result, the average rental yield for retail shop space fell from 3.7% to 3.2%. Both prices and rentals of retail shop space have fully recouped the losses suffered during the global financial crisis. Reflecting the strong take-up relative to completion in the year, the vacancy rate declined from 8.7% at end-2009 to 7.9% at end-2010.

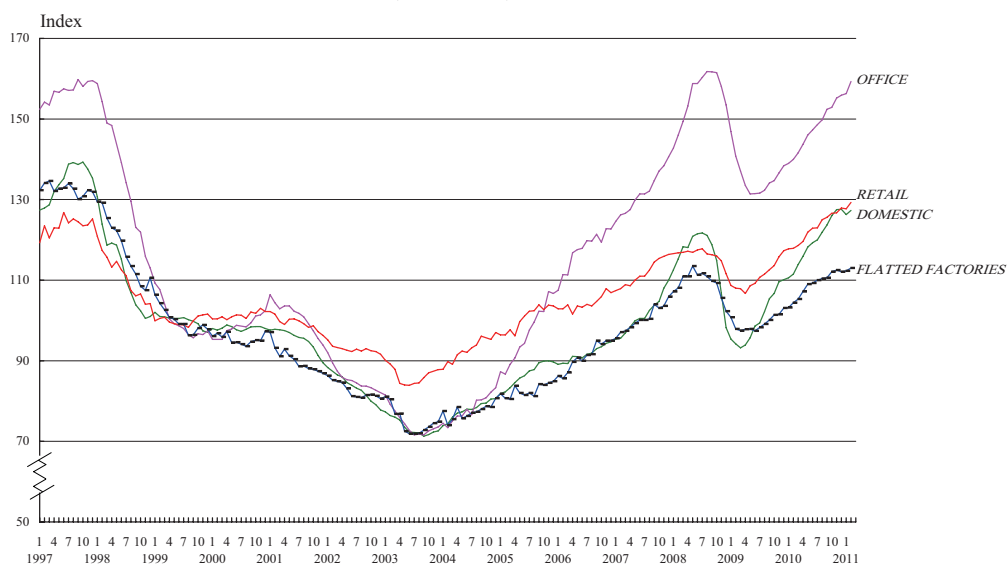
For flatted factory space, trading rebounded sharply by 51% to 8,400 transactions in 2010 after declining for two years. Prices and rentals rose by 30% and 9% respectively between December 2009 and December 2010, leading to a decline in average rental yield from 5.1% to 4.3%. Compared with the 2008 peaks, prices of flatted factory space were already much higher, while rentals were roughly on par. The vacancy rate fell from 8.0% at end-2009 to 6.6% at end-2010.

## INDUSTRY OVERVIEW

In the leasing market, overall flat rentals in December 2010 jumped by another 16% over a year earlier, following a 12% increase in the preceding year. Large flats and small/medium-sized flats both registered gains of 16%. As a consequence of the uninterrupted uptrend since April 2009, overall flat rentals in December 2010 were only 9% below the 1997 peak. With prices rising faster than rentals, the average rental yield for residential property edged down from 3.6% in December 2009 to 3.5% in December 2010.

Followings are the price indices and rental indices for Hong Kong property market since January 1997 up until January 2011:

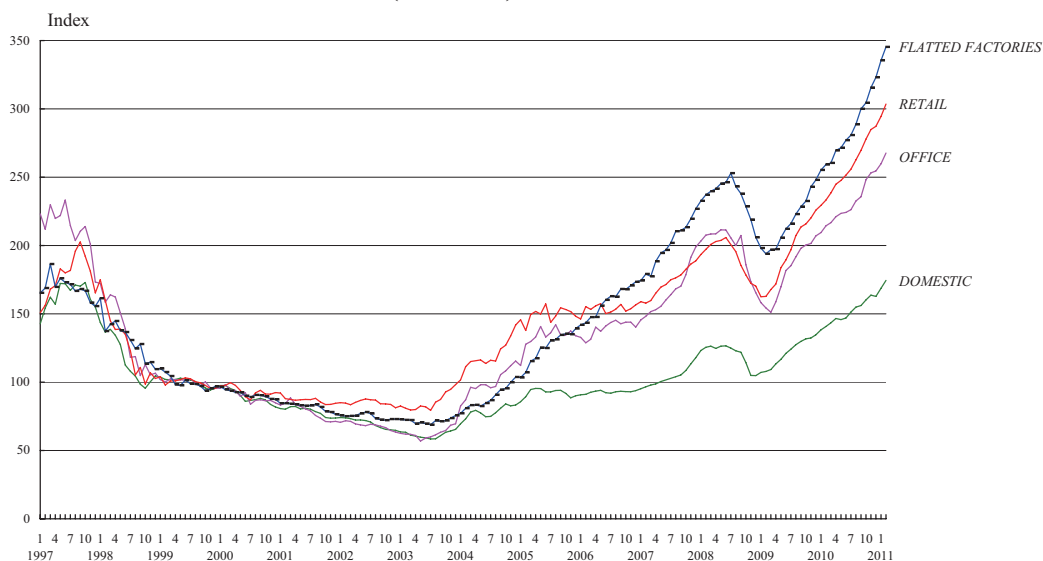
**RENTAL INDICES FOR HONG KONG PROPERTY MARKET  
(1999 = 100)**



Source from Hong Kong Rating and Valuation Department, *Property Market Statistics*  
Website: <http://www.rvd.gov.hk/en/doc/statistics/graph1.pdf>

# INDUSTRY OVERVIEW

PRICE INDICES FOR HONG KONG PROPERTY MARKET  
(1999 = 100)



Source from Hong Kong Rating and Valuation Department, Property Market Statistics

Website: <http://www.rvd.gov.hk/en/doc/statistics/graph2.pdf>

## HOTEL/GUESTHOUSE INDUSTRY

As one of the world class economy financial center with tax friendly jurisdictions and, in particular, a gateway to China, Hong Kong is considered one of the best cities to establish and run business. Furthermore, Hong Kong is strategically located at the heart of the Asian continent, which made Hong Kong to be one of the major ports of the world in terms of tonnage of shipping using its facilities, cargo handled and the number of passengers carried in Asia.

Benefit from the above factors, Hong Kong economy is mainly supported by four industries, namely, financial services, trading and logistics, tourism, and producer and professional services. They have been driving force of Hong Kong's economic growth, providing impetus to growth of other sectors, and creating employment.

According to "The Situation of the Four Key Industries in the Hong Kong Economy in 2009" published in April 2011 issued by Hong Kong Monthly Digest of Statistics, Hong Kong is one of the most popular destinations for visitors in the Asia Pacific region. Visitor arrivals have undergone sustained growth over the recent years. The following is the total number of visitors to Hong Kong for the past five years.



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## INDUSTRY OVERVIEW

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### *Number of Visitors*

<b>Year</b>	<b>Total number of visitors to Hong Kong*</b>	<b>Change %</b>
2005	23,359,417	N/A
2006	25,251,124	8.1
2007	28,169,293	11.6
2008	29,506,616	4.7
2009	29,590,651	0.3
2010	36,030,331	21.8

\* *Figures include overnight and same-day visitors*  
*Source from Hong Kong Tourism Board (A statistical review of Hong Kong Tourism 2010)*

In order to maintain Hong Kong's position as the top destination city for visitors in Asia, the Government of the Hong Kong Special Administrative Region established the Tourism Commission in 1999 to enhance tourism facilities and support the development of new attractions and events so that Hong Kong remains a premier tourist destination.

### **Hotel/Guesthouse Market**

According to Hong Kong Tourism Board, there were 175 hotels and 619 tourist guesthouses in Hong Kong. In total, there were 794 establishments providing 66,354 rooms, 968 more than in 2009. Align with the substantial increase of visitors to Hong Kong in year 2010, hotel room occupancy rate rose from 78% in 2009 to 87% in 2010. As shown in the table below, the Hong Kong hotel market benefited from very high occupancy levels. The following is the number of hotels/guesthouses, rooms available and the occupancy rate of Hong Kong hotel/guesthouse for the past five years.

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## INDUSTRY OVERVIEW

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### *Hotel/Guesthouse Supply and Occupancy*

<b>Year</b>	<b>No. of Hotels/ Guesthouses</b>	<b>No. of Rooms available</b>	<b>Change (%)</b>	<b>Occupancy rate (%)</b>
2005	586	48,891	N/A	86%
2006	612	52,512	7.4	87%
2007	651	56,649	7.9	86%
2008	695	60,273	6.4	85%
2009	758	65,386	8.5	78%
2010	794	66,354	1.5	87%

*Source from Hong Kong Tourism Board (A statistical review of Hong Kong Tourism 2010)*

According to Hotel Room Occupancy Report 2010 and Hotel Supply Situation published by Hong Kong Tourism Board — as at 31 December 2010, approximately 87% of all hotels in Hong Kong were occupied. The average price per hotel room was increased from approximately HK\$1,096 in January 2010 to HK\$1,328 in December 2010. As at 31 December 2010, Hong Kong has 60,428 rooms available among 175 hotels.

### *Competition and challenges*

The competitors of the hotel business range from operators of single guesthouses and hotels, local hotel chains with multiple hotels and to large international hotel chains operating multiple hotels under a variety of brand names. Competition for longer-stay guests is also increasingly arising from a proliferating number of operators of serviced apartments. The competition to attract customers is primarily based on the location of the hotel, price, property size, quality of rooms, amenities and facilities, customer brand recognition and loyalty, geographic coverage quality of services provided, and relationship with travel agents and third party wholesalers. Many competitors have operated in the industry for substantially longer periods of time and have accumulated more operational, managerial, sales and marketing experience, brand recognition, human resources and financial resources. Further, the barriers to entry into the hotel industry for new participants, particularly in the value and small-scale categories, are relatively low given the limited capital required to convert or redevelop existing buildings into value and small-scale hotels.

### **Future Opportunity**

Hong Kong has established itself as the financial centre for capital raising in the primary markets for domestic Chinese companies. The signing of the Closer Economic Partnership Agreement (CEPA), Hong Kong has become a unique gateway preferential access to China market. Furthermore, the Hong Kong tourism market is becoming increasingly important as visitors from China benefit from the Individual Visitation Scheme and Hong Kong's hotels, restaurants and retail outlets are a focal point of mainland consumer spending. The economic growth of Hong Kong is likely to be sustained in the long-term. Based on the statistics as disclosed above in this section, investing in Hong Kong properties is considered to be a low risk investment vehicles among all others. Hong Kong property investment will provide opportunity to capture capital appreciation of the asset and hotel and guesthouse business will earn rental income.

### ***Classification of hotel/guesthouse in Hong Kong***

A hotel/guesthouse is an establishment that provides paid lodging to visitors/travelers on a short-term basis. The provision of basic accommodation of small size hotel or guesthouse consists only of a room with a bed, a small table and with modern facilities, such as, a mini-bar with snack foods and drinks. Larger hotels may provide luxury features such as, restaurant, swimming pool, fitness center, business center, childcare, conference facilities and social function services.

A serviced apartment is a type of furnished apartment available for short-term or long-term stays, which provides amenities for daily use. Serviced apartments can be less expensive than equivalent hotel rooms. The difference between hotel/guesthouse and serviced apartment is that serviced apartment will provide cooking facilities in the apartments. Since there is an increase of travelers under individual visit scheme and backpacking international travelers, interest in serviced apartments has risen at the expense of the use of hotels for short stays. Because of the availability of kitchen facilities in the apartments, extended stay properties and apart-hotels do not tend to offer any extra services such as restaurants and bars.

According to The Hong Kong Tourism Board hotel classification system — 2010, Hong Kong Tourism Board (HKTB) in 2001 has modified the hotel classification system and an review exercise was undertaken in 2009 so as to reflect more accurately the quality and service of hotels in Hong Kong. The classification system maintain 5 key indicators including Hotel Achieved Room Rates, Staff to Room Ratio, Location, Facilities and Business Mix of hotels. The scoring system is adopted in the classification of hotels. For each important indicator selected above, scores are compiled based on results of the survey, except for average achieved room rate, which is based on results of the monthly Hotel Room Occupancy Surveys.

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## INDUSTRY OVERVIEW

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The composite score of a hotel, which is compiled based on the scores obtained for the indicators and the weights of the indicators, is an overall measure reflecting the category standing of the hotel. Hotel are classified into four categories; High Tariff A Hotels, High Tariff B Hotels, Medium Tariff Hotels and Tourist Guesthouses.

The Hong Kong Tourism Board does not make public the listings of hotels by category. However, individual hotels are informed of their respective category so that they can compare their own performance against their category averages when reading research reports on hotel industry published by the Hong Kong Tourism Board.



## ETERNITY INVESTMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 764)**

*Executive Directors:*

Mr. Lei Hong Wai (*Chairman*)  
Mr. Cheung Kwok Wai, Elton  
Mr. Chan Kin Wah, Billy

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Non-executive Director:*

Mr. Cheung Kwok Fun

*Head office and principal place of  
business in Hong Kong:*

Unit 3811, Shun Tak Centre  
West Tower  
168-200 Connaught Road Central  
Hong Kong

*Independent non-executive Directors:*

Mr. Hung Hing Man  
Mr. Wan Shing Chi  
Mr. Ng Heung Yan

17 October 2011

*To the Shareholders*

Dear Sir or Madam,

### **VERY SUBSTANTIAL ACQUISITION AND NOTICE OF SPECIAL GENERAL MEETING**

#### **INTRODUCTION**

On 4 April 2011 (after trading hours of the Stock Exchange), the Purchaser and the Vendor entered into the Sale and Purchase Agreement pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares and procure Ascott Holdings to assign the Intermediate Holding Company Loans to the Purchaser at the Acquisition Price of HK\$283.00 million.

On 30 September 2011, the Purchaser and the Vendor entered into the Supplemental Agreement pursuant to which the parties mutually agreed to extend the Long Stop Date from 30 September 2011 to 30 November 2011.

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## LETTER FROM THE BOARD

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The purpose of this circular is to give you further details of the Sale and Purchase Agreement and the transactions contemplated thereunder, together with a notice of the SGM.

### THE ACQUISITION

#### The Sale and Purchase Agreement

Date: 4 April 2011

Purchaser: Golden Stone Management Limited, a wholly-owned subsidiary of the Company

Vendor: Citadines Ashley TST (Singapore) Pte. Ltd., an investment holding company and a wholly-owned subsidiary of CapitaLand Limited

According to the published corporate information on the Singapore Exchange, CapitaLand Limited is a company listed on SGX MAINBOARD and engages in real estate, hospitality and real estate financial services in Asia Pacific and Europe.

To the best of Directors' knowledge, information and belief, having made all reasonable enquiry, the Vendor and the ultimate beneficial owner of the Vendor are third parties independent of and not connected with the Company or any directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates.

#### Assets to be acquired

Subject to the terms and conditions of the Sale and Purchase Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Shares and procure Ascott Holdings to assign the Intermediate Holding Company Loans to the Purchaser.

The Vendor is the sole legal and beneficial owner of the Sale Shares, which represent the entire issued share capital of the Target Companies. Citadines TST is the legal and beneficial owner of the Property situated at No. 18 Ashley Road, Tsimshatsui, Kowloon, Hong Kong and the principal activity of Citadines TST Management is the operation of serviced apartments.

The Intermediate Holding Company Loans represent the outstanding unsecured interest-free loans provided by Ascott Holdings to Citadines TST and Citadines TST Management as at the date of Completion. As at 31 December 2010, Citadines TST and Citadines TST Management were indebted to Ascott Holdings in the amounts of HK\$190.40 million and HK\$1.00 million, respectively.

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## LETTER FROM THE BOARD

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### **The Acquisition Price**

The Acquisition Price of HK\$283.00 million has been and shall be settled in cash in the following manner:

- (a) a deposit (the “**Deposit**”) of HK\$42.45 million has been paid by the Purchaser to the Vendor upon signing of the Sale and Purchase Agreement; and
- (b) the remaining balance of HK\$240.55 million shall be payable by the Purchaser to the Vendor at Completion.

The Acquisition Price shall be adjusted upward or downward by the Net Current Asset as at the date of Completion, provided that the Acquisition Price shall in no event be higher than HK\$290.00 million.

The Acquisition Price was agreed between the Purchaser and the Vendor after arm’s length negotiations with reference to the prevailing market value of properties around the area.

The Acquisition Price will be financed by internal resources of the Group.

### **Conditions precedent**

Completion shall be conditional upon the following matters having occurred:

- (a) the approval by the Shareholders at the SGM of the Sale and Purchase Agreement, the Deed of Assignment and the transactions contemplated under the Sale and Purchase Agreement in accordance with the requirements of the Listing Rules and the Purchaser shall use its best endeavour to procure that the SGM will be held;
- (b) all licenses, permissions, authorizations, certificates, regulatory approvals and consents in relation to the transactions contemplated under the Sale and Purchase Agreement under any applicable laws, statutes, regulations and ordinances having been obtained by the Company, Ascott Holdings and the parties thereto;
- (c) the termination of the management agreement dated 25 April 2008 made between Citadines TST Management and Ascott International Management (2001) Pte Ltd. and all existing management or service arrangements of which Citadines TST Management is a party;

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## LETTER FROM THE BOARD

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- (d) the Purchaser having reasonably satisfied in material respects with its due diligence investigation in respect of each of the Target Companies, including but not limited to an inspection and investigation as to the legal status, the financial, operation, contractual, taxation and management of the Target Companies and the title of its properties including the Property and licenses necessary to operate the businesses carried on by the Target Companies;
- (e) the warranties remaining true and accurate in all material aspects and not misleading in any material respect and unless otherwise specified in the Sale and Purchase Agreement, at all times subsequent to the date of the Sale and Purchase Agreement up to and including the date of Completion as if repeated on each day immediately prior to the date of Completion;
- (f) the Vendor agrees to produce to the Purchaser at least seven (7) business days before the date of Completion an Architect's Certificate (the "**Certificate**") certifying that the alterations to the Property are not considered as structural alterations and are "Exempted Works" under the Buildings Ordinance and that the Property in its present state and condition is in full compliance with the Buildings Ordinance and other related Ordinances and Regulations relating to their present use. The Certificate shall be in the form (in so far as applicable) similar to the Architect's Certificate issued by Mr. Alfred Y.K. Chow, Authorized Person on 26 April 2006 in relation to the Property;
- (g) there must not be in effect, published, introduced or otherwise formally proposed law or judgment, and there must not have been commenced or threatened any proceeding, that in any case could prohibit, prevent or make illegal the consummation of any of the transactions contemplated by the Sale and Purchase Agreement; and
- (h) no Material Adverse Effect occurred on each of the Target Companies and the Property prior to Completion.

The Vendor undertakes to use its best endeavour to procure that conditions (b) to (c) and (e) (in so far as the warranties given by the Vendor are concerned) to (f) are satisfied on or before the Long Stop Date. The Purchaser undertakes to use its best endeavour to procure that conditions (a) to (b) and (e) (in so far as the warranties given by the Purchaser are concerned) are satisfied on or before the Long Stop Date. For the avoidance of doubt, if a party has used its best endeavors to satisfy a condition precedent for which it is responsible but such condition precedent cannot be satisfied by the Long Stop Date, such party shall not be deemed as having committed a breach of the Sale and Purchase Agreement.



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## LETTER FROM THE BOARD

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The Vendor shall be entitled in its absolute discretion to waive condition (e) (in so far as the warranties given by the Purchaser are concerned). The Purchaser shall be entitled in its absolute discretion to waive conditions (d), (e) (in so far as the warranties given by the Vendor are concerned), (f) and (h). Such waiver shall not imply that the party is not relying on the warranties but rather only that it is prepared, in reliance upon the warranties and such comfort, if any, as it has taken from its investigations, to proceed with the transactions contemplated under the Sale and Purchase Agreement.

If any of the conditions precedent set out above has not been fulfilled (or waived by the Vendor or the Purchaser (as the case may be) by the Long Stop Date, the Sale and Purchase Agreement shall automatically be terminated and shall cease to have any further force and effect and the Vendor shall within five (5) business days from the Long Stop Date return the Deposit without any interest thereon to the Purchaser, whereupon no party shall have any further liability to the other under the Sale and Purchase Agreement.

None of the above conditions precedent has been fulfilled as at the Latest Practicable Date.

### **Completion**

Completion shall take place on the date which is the third business days immediately following the date on which all of the above conditions precedent have been satisfied or waived (as applicable) or such other date as the parties may agree in writing on which the completion occurs.

### **Default**

Should the Purchaser fail to complete the purchase of the Sale Shares and/or take up the assignment of the Intermediate Holding Company Loans in accordance with the terms of the Sale and Purchase Agreement as a result of its wilful default or fault, the Vendor shall be entitled to rescind the Sale and Purchase Agreement by notice in writing to the Purchaser and forfeit a sum of HK\$20.00 million as liquidated damages and deduct the same from the Deposit, and within seven (7) business days of such notice in writing return the balance of Deposit to the Purchaser.

Should the Vendor fail to complete the sale of the Sale Shares and/or procure the assignment of the Intermediate Holding Company Loans in accordance with the terms of the Sale and Purchase Agreement as a result of its wilful default or fault, the Purchaser shall be entitled to rescind the Sale and Purchase Agreement by notice in writing to the Vendor and the Vendor shall, within seven (7) business days of such notice, refund the Deposit to the Purchaser without interest and pay a sum of HK\$20.00 million to the Purchaser as liquidated damages.

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## LETTER FROM THE BOARD

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### FINANCIAL INFORMATION ON THE TARGET COMPANIES

#### **Citadines TST**

Citadines TST is a company incorporated in Hong Kong with limited liability on 1 March 2006. The principal activity of Citadines TST is property investment. The principal asset of Citadines TST is the Property. The Retails Portion is leased to independent third parties for retailing and the Serviced Apartments Portion is leased to Citadines TST Management for carrying out the business of serviced apartments.

According to the accountants' report on Citadines TST as shown in Appendix III to this circular, the net liabilities of Citadines TST as at 31 December 2008, 2009 and 2010 were HK\$24.24 million, HK\$21.65 million and HK\$1.14 million respectively and the net assets of Citadines TST as at 30 June 2011 was HK\$99.67 million. The loss before and after income tax credit of Citadines TST for the year ended 31 December 2008 were HK\$39.64 million and HK\$33.17 million respectively. The profit before income tax expense for the year ended 31 December 2009 and 2010 and the six months ended 30 June 2011 were HK\$3.11 million, HK\$24.41 million and HK\$120.88 million respectively. The profit after income tax expense for the year ended 31 December 2009 and 2010 and the six months ended 30 June 2011 were HK\$2.60 million, HK\$20.51 million and HK\$100.81 million respectively.

#### **Citadines TST Management**

Citadines TST Management, a company incorporated in Hong Kong with limited liability on 1 March 2006. The principal activity of Citadines TST Management is the operation of serviced apartments. Citadines TST Management is holding the hotel and guesthouse license in respect of the Serviced Apartments Portion. The Serviced Apartments Portion is leased to Citadines TST Management for carrying out the business of serviced apartments.

According to the accountants' report on Citadines TST Management as shown in Appendix IV to this circular, the net liabilities of Citadines TST Management as at 31 December 2008, 2009 and 2010 and 30 June 2011 were HK\$1.66 million, HK\$3.05 million, HK\$2.61 million and HK\$1.22 million respectively. The profit before and after income tax expense for the year ended 31 December 2008 and 2010 and the six months ended 30 June 2011 were both HK\$1.10 million, HK\$0.44 million and HK\$1.40 million respectively. The loss before and after income tax expense of Citadines TST Management for the year ended 31 December 2009 were both HK\$1.40 million.

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## LETTER FROM THE BOARD

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As disclosed in the accountants' reports of the Target Companies, each of the Target Companies was in net liability position at 31 December 2008, 2009 and 2010. The Directors believe that the net liability position of the Target Companies is mainly resulted from utilising debt-financing, rather than equity in financing their operations as each of the Target Companies has an issued share capital of HK\$1. Furthermore, as disclosed on pages 35 to 36, the Directors consider the Acquisition represents an opportunity for the Company to participate in the property market in Hong Kong taking into account the potential growth of the property market in Hong Kong which enables the Group to enjoy the benefit from the capital appreciation of the property investment and the positive impact on the profitability of the Group. Therefore, the Directors are of the view that the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### INFORMATION OF THE PROPERTY

The Property is the whole block of a building, namely Citadines Ashley Hongkong, located at No. 18 Ashley Road, Tsimshatsui, Kowloon, Hong Kong. The Property comprises 20-storey, including ground floor, which was built in 1998 with a total gross floor area of approximately 28,338 square feet. The Retails Portion is designated for shops and retails purpose and the rest are designated for commercial use purpose. The Serviced Apartments Portion is currently used as serviced apartments with 36 units which provides furnished studio apartment, including living area, sleeping area and a kitchen, available for short-term or long-term stays. Serviced apartments become an alternative for hotel accommodation for short and long stay leisure and business travel as it is less expensive than hotel.

The Property is located on Ashley Road in the Tsimshatsui District which is a traditional tourist, shopping and entertainment area. A vibrant mix of business and leisure facilities, encompassing broad retail amenities and luxury hotels including Kowloon Hotel, The Peninsula Hotel, Langham Hotel, together with a wide variety of restaurants, café, pubs and bars in the area.

According to the financial results of the Target Companies, the rental income of the Retails Portion generated from external parties for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 amounted to HK\$0.83 million, HK\$1.34 million, HK\$1.68 million and HK\$0.82 million respectively, and the rental income of the Serviced Apartments Portion generated from external parties for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 amounted to HK\$10.80 million, HK\$8.17 million, HK\$10.85 million and HK\$6.36 million respectively.

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## LETTER FROM THE BOARD

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Based on the existing tenancy, the Retails Portion generates an average monthly rental income of HK\$159,000 for the six months ended 30 June 2011 (exclusive of government rates and inclusive of management fees). The Retails Portion is currently used by the tenants as salon, teahouse, bar and cafes, and the tenancy will be expired in year of 2011 and 2012 with options to renew. Based on the accountants' report of Citadines TST Management as set out in Appendix IV to this circular, the Serviced Apartments Portion generated an average monthly rental income of HK\$1.06 million for the six months ended 30 June 2011.

All operating expenses of the Serviced Apartments Portion, including utilities charges, telephone charges (except for international direct distance calls which are borne by the guests of the Serviced Apartments Portion) and the government rent and rates are borne by the Target Companies. The utilities charges and telephone charges of the Retails Portion are borne by the tenants. The government rent and rates of the Retails Portion are borne by Citadines TST or the tenants in accordance with the tenancy agreements between Citadines TST and the tenants of the Retails Portion.

According to the records of Citadines TST Management, the occupancy rate of the Serviced Apartments Portion for the year ended 31 December 2008, 2009 and 2010 were 87%, 84% and 83% respectively.

During the three years ended 31 December 2010, based on the records of Citadines TST Management, 65% of the guests of the Serviced Apartments Portion were tourists and 20% of the guests of the Serviced Apartments Portion were business travelers. Among the total guests of the Serviced Apartments Portion, 40% was from Asia, 25% was from the PRC, Taiwan and local, 20% was from Europe, 10% was from Australia and New Zealand, and 5% was from the United States of America. In respect of the length of stay by the guests of the Serviced Apartments Portion, 92% of the total guests stayed in the Serviced Apartments Portion was less than 1 month (normally one to seven days) and 8% of the total guests stayed in the Serviced Apartments Portion was between one to six months.

The size of units of the Serviced Apartments Portion is ranged from 18 square meters to 32 square meters. The Property has been renovated by the Vendor since it was acquired in 2006 in accordance with the hospitality business standard of the Vendor, including refurnished the interior of all the guestrooms of the Serviced Apartments Portion, redesigned the interior of lobby and exterior of the Serviced Apartments Portion with signage specified by the Vendor. Currently, the marketing and leasing activities of the Serviced Apartments Portion are mainly online travel agents such as ctrip, booking.com and agoda, etc. Given the Property is located at Ashley Road, Tsimshatsui District which is a traditional tourist, shopping and entertainment area, the competitive edge of the Serviced Apartments Portion lies with its superb location and the marketing positioning of the Serviced Apartments Portion is targeting for tourist and business travelers.

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## LETTER FROM THE BOARD

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Upon Completion, the Purchaser shall remove all signages and stop using all the trademarks bearing the name “Citadines” and shall within 30 days after the date of Completion procure each of the Target Companies to change its name to any other name not bearing the name “Citadines”. Accordingly, the Serviced Apartments Portion shall use the brand owned by the serviced apartments operator to be appointed by the Enlarged Group for trading and the sale and marketing activities of the Serviced Apartments Portion shall be carried out by Citadines TST Management in collaboration with the properties managed by the serviced apartments operator to be appointed by the Enlarged Group. It is expected that the main marketing and leasing activities of the Serviced Apartments Portion shall remain at online travel agents as both the Directors and the prospective serviced apartments operators believe that the use of online travel agents is cost effective.

According to occupation permit of the Property issued by the Building Authority, the 1st to 21st floor of the Property shall be used as offices and ancillary accommodation on each floor for non-domestic use. The Serviced Apartments Portion is currently used for carrying on the business of hotel/serviced apartments and ancillary purpose for domestic use. Pursuant to Section 25 of the Buildings Ordinance, the change in use of the Serviced Apartments Portion into the current use may be considered by the Building Authority as a change in use of the Property, which is a contravention of the provision of the Buildings Ordinance.

The Building Authority is the Director of Buildings under the Buildings Ordinance, which heads the Buildings Department. The Buildings Department is responsible for the enforcement of the Buildings Ordinance and conducts various roles and functions, including, but not limited to, considering and approving the alteration and addition of works for existing buildings, scrutinizing and approving building plans, carrying out audit checks on construction works, monitoring the site safety and issuing occupation permits upon completion of new buildings. An occupation permit is a document issued by the Building Authority under the provisions of the Buildings Ordinance and stipulates the designated use of the property. It may be issued in respect of the whole or part of a new building. If any material change is intended to be made to the use of the premises which would contravene the designated use specified in the occupation permit, one month’s notice must be given to the Building Authority of the intended change and the Building Authority may prohibit such change of use where, in its opinion, the building is not suitable by reason of its construction for the intended use. The occupation permit is important because it will confirm that the statutory requirements of the Buildings Ordinance have been complied with and will also show the permitted use of the building.

According to the letter issued by Home Affairs Department dated 28 September 2004, the hotel and guesthouse license of the Serviced Apartments Portion was granted to the former owner of the Property and the letter stated that “the occupation permit of the Property issued by the Building Authority together with the approved drawings of the Property indicate the approved use of the hotel and parts thereof. If it is intended to change

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## LETTER FROM THE BOARD

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the use of any of these areas, the prior written agreement of the Building Authority is required”. The Vendor confirmed during the due diligence investigation that no notice of contravention of the provision of the Buildings Ordinance was received from the Building Authority.

In light of the above, the Company has made an application to the Buildings Department to seek confirmation whether the hotel and guesthouse license issued by the Home Affairs Department could justify the material change in use of the Property and the material change in use of the Property constitutes a breach of the Buildings Ordinance: The Buildings Department confirmed that there is no approved plan of alteration and addition works for hotel and guesthouse for the Property on the records kept by them. The conversion of the Property from office to hotel and guesthouse would constitute a material change in use from non-domestic to domestic. The change is not permitted unless the hotel/guesthouse complies with the requirements set out in Building (Planning) Regulation 23A, which includes but not limited to the lodging of plans of alteration and addition works. The Buildings Department advised that the issue of a hotel and guesthouse license under the Hotel and Guesthouse Accommodation Ordinance does not in any way exempt or indemnify the licensee from the consequences of non-compliance with the provisions of any other enactments or from the consequences of breach of any other regulations or laws of Hong Kong.

As advised by the Company’s legal advisers, given that the Building Authority considers the change in use from non-domestic to domestic is a material change in use of the Property, the Building Authority may require the owner or occupier to discontinue such present use of the Serviced Apartments Portion within one month from the service of the order and the operations of serviced apartments will be ceased.

According to the architect’s certificate issued by Mr. Kong Kai Cheung, an Authorised Person in the list of architects in Hong Kong, dated 13 April 2011, the Property is in full compliance with the Buildings Ordinance and other ordinances and regulations relating to the present use of the Property. The 1st floor to the 3rd floor are of commercial use with restaurant/bar. Partitions were built from the 5th floor to 21st floor of the Property for guestrooms and annexed bathrooms based on hotel license application and these partitions were not considered as structural alterations and are “Exempted Works” under the Buildings Ordinance. Such partitions works are controlled by hotel licensing process under the Home Affairs Department. Moreover, the legal advisers of the Company have also made an application to the Home Affairs Department to confirm if there is any change to the applicable laws subsequent to the letter dated 28 September 2004. The Home Affairs Department advised that the letter dated 28 September 2004 was to remind the licensee that the occupation permit issued by the Building Authority and the approved drawings indicate

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## LETTER FROM THE BOARD

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the approved uses for the Property. If it is intended to change the use of any licensed areas, the prior written agreement of the Building Authority is required. As far as we are aware, the Vendor has not sought any prior written agreement from the Building Authority in this respect.

The legal advisers of the Company have sought clarifications with the architect and confirmed that the word “present use” as referenced in the architect’s certificate dated 13 April 2011 refers to the current use of the Serviced Apartments Portion as hotel/guesthouse. Notwithstanding the architect’s certificate states that the Property is in full compliance with the Buildings Ordinance, given that the Buildings Department has stated in its letter dated 24 August 2011 that the change in use of the Serviced Apartments Portion from non-domestic to domestic use constitutes a material change in use and based on the information and record provided, the legal advisers of the Company are of the view that the Serviced Apartments Portion is not in full compliance with the Buildings Ordinance.

Nevertheless, the Board is advised that the owner of the Property can apply to the Building Authority for change of use of the Serviced Apartments Portion into the current use. The owner of the Property should give one month’s notice in the specified form, together with any amended plans, to the Building Authority of any intended material change in use of the Serviced Apartments Portion by the person intending to carry out or authorising the carrying out of such change. If the Building Authority considers that the present or intended use is suitable, a notice in writing permitting such building works will be given and as such, the change in use of the Serviced Apartments Portion will be in compliance with the Buildings Ordinance.

As advised by Mr. Kong Kai Cheung, an Authorised Person in the list of architects in Hong Kong, the land lot in which the Property situated is zoned for commercial use under the prevailing Tsimshatsui Town Planning Zoning in which hotel use is always permitted and there is no restriction in the Government Lease of the land lot in respect of the Property for hotel use. Based on the advices from Mr. Kong Kai Cheung, the Directors are of the view that there is no obstacle or risk that the application to the Buildings Department for the change in use of the Serviced Apartments Portion.

According to Savills, the property agent of the Property, there is no public record that a property with a hotel and guesthouse license in Hong Kong has been served an order by the Buildings Department for material change in use in accordance with the Buildings Ordinance.

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## LETTER FROM THE BOARD

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Given that (i) the current hotel and guesthouse license granted to Citadines TST Management is valid until 30 September 2014; (ii) there is no obstacle to obtain the approval for change in use from Buildings Department according to Mr. Kong Kai Cheung, an Authorised Person in the list of architects in Hong Kong; and (iii) there is no public record that a property with a hotel and guesthouse license in Hong Kong has been served an order by the Buildings Department for material change in use in accordance with the Buildings Ordinance, the submission of an application to the Buildings Department for the change in use for the Serviced Apartments Portion will be made by the Company as and when the Directors consider appropriate. Having consulted with Mr. Kong Kai Cheung, the estimated cost to prepare an application to the Buildings Department for the change in use of the Serviced Apartments Portion is approximately HK\$200,000.

As advised by Mr. Kong Kai Cheung, an Authorised Person in the list of architects in Hong Kong, and confirmed by Savills, the property agent of the Property, the approval to be granted by Buildings Department for the change in use of the Serviced Apartments Portion can be obtained in about two to three months after the submission of such application.

Although the use of the Serviced Apartments Portion is not in full compliance with the Buildings Ordinance, the Directors consider the Acquisition is fair and reasonable and to the interest of the Shareholders based on the following grounds:

- (a) to capture the capital appreciation in the property sector, meanwhile, to utilise the Property by carrying out the existing business of the Target Companies;
- (b) the hotel and guesthouse license in respect of the Serviced Apartments Portion, which is valid until 30 September 2014, has been granted by the Hotel and Guesthouse Accommodation Authority;
- (c) to diversify business of the Group into property investment business and hotel and serviced apartments business; and
- (d) the application for change of use of the Serviced Apartments Portion into current use can be done by an authorised architect at any time.

During the course of due diligence exercise, the Company has conducted revision of the financial information of the Target Companies, the ownership rights and legal title of the Property. According to the results of the due diligence work done by the Company, save as information disclosed under the risks factors, no material defect, breaches of laws and regulations and other deficiencies in relation to the Target Companies and/or the Property was found during the due diligence work performed by the Company and other professional parties as at the Latest Practicable Date. Disclosure has been made under the section headed “Risks Factors” of this circular.



### INFORMATION ON THE NEW BUSINESS

#### **Description of the Property**

Detailed description of the Property has been disclosed in the section headed “INFORMATION OF THE PROPERTY” on pages 25 to 30 of this circular.

As advised by the Vendor, 29 units of the Serviced Apartments Portion were renovated during the period from December 2006 to April 2007, whereas the remaining units were renovated during the period from April 2007 to October 2007. The renovation works involved refurnishing the entire interior of the units including furnitures, fixtures and electrical appliances according to the identity and specification of Citadines’ standard. In 2008, the Target Companies carried out the last phase of renovation works of the Property, which involved converting the telephone system room into the computer server room, refurnishing the lobby, installing air-conditioners inside the lifts and renovating management office. Given the interior and exterior of the Property are in fairly good condition, the Enlarged Group intends to invest HK\$8.00 million to HK\$10.00 million in renovating the Property upon Completion. To minimize business disruption and ensure an ongoing rental income stream, such renovation will be carried out by phases. It is expected that less than ten units are involved in each phases of renovation.

#### **Operation of the new business**

Following the Completion, the Enlarged Group shall carry out the existing businesses of the Target Companies, in which the Retails Portion is leased to independent third parties for retailing and the Serviced Apartments Portion is operated as serviced apartments. For the serviced apartments, a serviced apartments operator shall be appointed to provide management service to the Serviced Apartments Portion.

On 25 April 2008, Citadines TST Management entered into a management agreement with Ascott International Management (2001) Pte. Ltd., a fellow subsidiary of Citadines TST Management, relating to the management and services arrangement in respect of the Serviced Apartments Portion. Upon Completion, all employees of Citadines TST Management will be retained by the Enlarged Group and the business and function of Citadines TST Management will remain unchanged. Citadines TST Management will entered into a new management services agreement with the serviced apartments operator in replacing the role of Ascott International Management (2001) Pte. Ltd..

The Group has entered into negotiations with several independent third parties in relation to the appointment of serviced apartments operator for the Serviced Apartments Portion. As at the Latest Practicable Date, the candidates for serviced apartments operator have

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## LETTER FROM THE BOARD

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been narrowed down to two and no decision on the appointment had been made. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, none of the candidates for serviced apartments operator is a connected person (has the meaning ascribed to it in the Listing Rules) of the Company.

The selection criteria of the serviced apartments operator are (i) the financial background of the serviced apartments operator; (ii) the reputation of the serviced apartments operator in the industry; (iii) the number of properties being managed by the serviced apartments operator; (iv) the standard of operations being provided by the serviced apartments operator; and (v) the structure of management fee.

As proposed by the candidates of serviced apartments operator, the structure of monthly management fee is basically as follows:

- (a) a basic management fee calculated at less than 5% of monthly revenue generated from the Serviced Apartments Portion; and
- (b) if the gross operating profit margin exceeds a predetermined percentage, an incentive management fee calculated at less than or equal to 5% of monthly gross operating profit of the Serviced Apartments Portion.

The Directors have done researches on the serviced apartments industry and found that the proposed structure of management fee is in line with the industry practice in Hong Kong. The proposed structure of management fee is also similar with the management services agreement entered into between the Group and SHAMA in relation to the provision of management services to the Beijing Property (as defined below). As such, the Directors consider the structure of monthly management fee proposed by the candidates is fair and reasonable.

The selection criteria as stated above are the basic requirements for selecting the potential candidates for the serviced apartments operator. The Directors believe that the final decision on appointing the serviced apartments operator shall be largely based on the terms of management services agreement proposed by each of the potential candidates, for instance, payment terms of monthly management fee and adjustments to monthly management fee in the event of non-achievement of any performance ratios set by the owner etc.. Given the Group had experience in managing the business of serviced apartments in Beijing, the PRC, which was managed by SHAMA, and two executive Directors had involved in the negotiations and conclusion of management services agreement with SHAMA, the Directors consider that the selection and appointment process of serviced apartments operator shall be carrying out properly.

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## LETTER FROM THE BOARD

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The expected role of the serviced apartments operator is responsible for supervising, directing and controlling day to day affairs of the Serviced Apartments Portion including advertising, acquisition and disposal of furnishings and equipment and the arrangement of maintenance, repairs and alterations.

As the serviced apartments operator to be appointed will have its own brand and network. The property image, sales and marketing position and sourcing of customers of the Serviced Apartments Portion will be responsible by the serviced apartments operator. According to the presentations of the candidates of serviced apartments operator, the target customers of the Serviced Apartments Portion will be mainly focused on short stay tourists and business travelers. Given (i) the Property is located at Tsimshatsui District which is a traditional tourist, shopping and entertainment area and (ii) the availability of various sizes of guestrooms, the Directors consider the Serviced Apartments Portions is in a good marketing position.

It is expected that the selection process of the serviced apartments operator and the execution of the management services agreement with the selected serviced apartments operator shall be completed on or before the Completion. Accordingly, the selection of the serviced apartments operator will not cause any disruption to the business of the Target Companies.

### **Management experience in managing the new business and/or supervising the serviced apartments operator**

As disclosed in the section headed “Risks Factors” of this circular, the Company does not have any experience in hotel accommodation business. However, the Group acquired a block of building with 179 residential units and 177 car parks in Beijing, the PRC (the “**Beijing Property**”) and transformed the Beijing Property into high-end serviced apartments in 2006. Upon completion of the transformation, the Group appointed SHAMA as the operator to provide services for managing and operating the Beijing Property in 2008. During the period, Mr. Lei Hong Wai was the general manager of the Group and Mr. Chan Kin Wah, Billy was the chief financial officer of the Group. Both of them are now the Directors and involved substantially in the transformation of the Beijing Property, the selection process of serviced apartments operator, the negotiations and conclusion of management services agreement with SHAMA, the management and operations of the Beijing Property, for instance monitoring the monthly performance of the Beijing Property and attending regularly meetings with SHAMA. As such, the Board is of view that the Company has sufficient management experience in supervising the serviced apartments operator.

### **Plans in relation to the Property**

The Group currently intends to hold the Property as a long-term investment for rental and capital growth purposes.

There are numbers of risk relating to the Acquisition, including the significant challenges to the Group by entering into large-scale investment, regulations, renewal of hotel and guesthouse license, decline in fair value of the Property, competition, seasonal fluctuations, etc. Shareholders are strongly recommend to read carefully to risks which, to the best knowledge of the Directors, are identified by the Company as at the Latest Practicable Date and the Company's proposal to mitigate such risks.

### **Licenses required for the new business**

As the Serviced Apartments Portion falls into "hotel" and "guesthouse" under the Hotel and Guesthouse Accommodation Ordinance, the new business of the Enlarged Group requires a hotel and guesthouse license for its operations.

A hotel and guesthouse license is a document issued by the Hotel and Guesthouse Accommodation Authority, the only licensing authority to grant hotel and guesthouse licenses, which processes all applications for new licenses for hotels and guesthouse, their renewal as well as their transfer, under the provisions of the Hotel and Guesthouse Accommodation Ordinance.

According to the Hotel and Guesthouse Accommodation Ordinance, a "hotel" and "guesthouse" means any premises being held out in which sleeping accommodation is provided for any person presenting himself who appears able and willing to pay a reasonable sum for the services and facilities provided for a period of less than 28 continuous days. In the Hotel and Guesthouse Accommodation Ordinance, "hotel" and "guesthouse" have the same definitions. All new establishments must apply for a license from the Hotel and Guesthouse Accommodation Authority before commencing operation, provided no certificate of exemption has been issued. The licenses are subject to renewal upon their expiration and the validity period of such license range from 12 to 84 months. A holder of a license should apply for a renewal not less than three months prior to the expiry of the license.

According to the Vendor, the Serviced Apartments Portion has been operating as serviced apartments and a hotel and guesthouse license has been granted to Citadines TST Management by the Hotel and Guesthouse Accommodation Authority since 2006. In September 2011, the hotel and guesthouse license in respect of the Serviced Apartments Portion was issued by Hotel and Guesthouse Accommodation Authority to Citadines TST Management with validity period of 36 months to 30 September 2014.

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## LETTER FROM THE BOARD

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Given the Property has been operating as serviced apartments since 2006 and Citadines TST Management has recently renewed the hotel and guesthouse license, which is valid until 30 September 2014, the Directors expect that there is no problem or legal impediment to renew the hotel and guesthouse license in the future.

To the best of Directors' knowledge, information and belief and having made all reasonable enquiry, save for the requirement of hotel and guesthouse license under the Hotel and Guesthouse Accommodation Ordinance, Citadines TST Management is not required to obtain any license under other relevant laws and regulations of Hong Kong to operate hotel/serviced apartments in Hong Kong.

### REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in distribution of films, sub-licensing of film rights, sales of financial assets and provision of management services to concierge departments of gaming promoters.

Following the 2008 financial crisis, investors are allocating their wealth from equities and structured products to real estate assets as they believe real estate assets provide not only a stable income flow in short run, but also an opportunity for capital gain in long run. Real estate assets are also effective against inflation. With a view to expand into property investment/development business, the Group entered into a joint venture agreement with an independent third party on 21 July 2010 for the purpose of setting up a joint venture company engaging in the business of conducting, development and investing into real estate and related projects in Vietnam. As the independent third party failed to obtain the relevant approvals and consents from the Vietnam Government in relation to the setting up of the joint venture company on or before the long stop date, the joint venture agreement was lapsed on 31 December 2010. As stated in the Company's joint announcement with China Star Entertainment Limited dated 9 February 2011, the Company has intended to expand into property investment/development business on its own given the formation of the joint venture company cannot be completed. Given land is a scarce resource in Hong Kong and the land supply of Hong Kong is limited, the Directors are positive on the Hong Kong property market. Accordingly the Directors consider that the terms of the Sale and Purchase Agreement and the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole on the following grounds:

- (a) the Acquisition is in line with the Group's business strategy;
- (b) the Acquisition presents an opportunity to the Group to expand into property investment business on its own;
- (c) the Property is located at Tsimshatsui, a prime location of Kowloon Peninsular; and

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## LETTER FROM THE BOARD

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- (d) the Acquisition enables the Group to diversify its revenue sources and improves the Group's profitability in the long run.

Although each of the Target Companies was in net liability position at 31 December 2008, 2009 and 2010. The Directors believe that the net liability position of the Target Companies is mainly resulted from utilising debt-financing, rather than equity in financing their operations as each of the Target Companies has an issued share capital of HK\$1. Given that the assignment of the Intermediate Holding Company Loans of HK\$191.40 million by Ascott Holdings to the Purchaser at Completion, the Directors consider that and there is no adverse impact on the financial position of the Company by the net liabilities positions of the Target Companies.

Having considered the potential growth of the property market in Hong Kong which enable the Group to enjoy the benefit from the capital appreciation of the property investment and the positive impact on the profitability of the Group, the Board is of the view that the Acquisition represents a good opportunity for the Company to participate in the property market in Hong Kong, and therefore is fair and reasonable and in the interests of the Company and its Shareholders as a whole. Further information in respect of Hong Kong economic overview and property sector overview are disclosed in the section headed "Industry Overview" in this circular.

### **UNDERTAKING GIVEN BY MR. LEI HONG WAI TO THE VENDOR**

Mr. Lei Hong Wai, the Chairman of the Board, an executive Director and a substantial Shareholder holding 220,280,000 Shares representing approximately 19.99% of the then issued share capital of the Company as at the date of the Sale and Purchase Agreement, has given an undertaking to the Vendor that he will vote for the resolutions in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM.

### **FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP**

For the six months ended 30 June 2011, the Group recorded a revenue of HK\$45.07 million, a 37% increase from HK\$32.78 million for the same period of the previous year. This increase was mainly attributable to the increase in service fee income generated from provision of management services business. Profit for the six months ended 30 June 2011 amounted to HK\$63.61 million, a 82% increase from HK\$35.02 million for the correspondence period in 2010.

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## LETTER FROM THE BOARD

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For the remainder of 2011, the Directors believe that ongoing concerns over weakening global economic growth, intensified European sovereign debt crises, the US government debt and deficit issues and fears of a hard landing in China continue to weigh on global equities. Given the significance of the US sovereign downgrade, markets are likely to remain data sensitive and volatile. As such, the Group will adopt a more conservative investment attitude toward its sale of financial assets business.

Despite the fact that Macau gaming recorded a 49% growth in its VIP segment in the first half of 2011, the Directors believe that a tighter China credit market and an uncertainty on the global economic environment may have slowed the VIP revenue growth in the second half. Accordingly, the Directors expect that the overall performance of the Group's provision of management service business will report a moderate growth in the second half of 2011.

To broaden its business portfolio and revenue sources, the Group obtained the sole and exclusive right and master license relating to establish, operate, manage the franchise business of selling noodles, drinks and related Japanese food products from a Japanese Corporation on 6 July 2011. The sole and exclusive right and master license is for a period of ten years until 14 July 2021 covering the Greater China Region. The Directors are formulating a business plan for the franchise business and announcements will be made as and when required pursuant to the Listing Rules.

Although the setting up of the joint venture company engaging in the business of conducting, development and investing into real estate and related projects in Vietnam was lapsed, the Group's business strategy in expanding into property investment and development business remains unchanged and the Directors are actively seeking suitable property projects for the Group.

On 2 June 2011, the Company announced the proposed acquisition of the entire issued share capital of Adelio Holdings Limited at a cash consideration of HK\$267.60 million. Adelio Holdings Limited has two wholly owned subsidiaries, which are One Synergy Limited and Rexdale Investment Limited. The principal asset of One Synergy Limited is the 100% equity interest in Rexdale Investment Limited. Rexdale Investment Limited is a property holding company and its major asset is the property (the "**Kwun Tong Property**") situated at a building, namely The Grande Building (嘉域大廈), located at Nos. 398-402 Kwun Tong Road (formerly known as No. 95 How Ming Street), Kowloon, Hong Kong (the "**Building**"), particularly the sole and exclusive right and privilege to hold use occupy and enjoy Factory A on the First Floor (including its Flat Roof) of the Building, Factory B on the First Floor (including its Flat Roof) of the Building, Sixth Floor of the Building, Factory A on the Seventh Floor of the Building, Factory B on the Seventh Floor of the Building, Factory A on the Eighth Floor of the Building, Factory B on the Eighth Floor of the Building, Factory A on the Ninth Floor of the Building, Factory B on the Ninth Floor of the Building, Tenth Floor of the Building, Eleventh Floor of the Building, Twelfth

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Floor of the Building, Roof of the Building, External Walls of the Building, Lavatory A and Lavatory B on the Ground Floor of the Building and Car Parking Spaces Nos. 1, 2, 3, 14, 15, 16, 17, 18, 19, 20 and 21 on the Ground Floor of the Building. The Building is an industrial building comprises 13-storey, which was built in 1981. The Kwun Tong Property has a total gross floor area of approximately 139,412 square feet. For more information on Adelio Holdings Limited, One Synergy Limited, Rexdale Investment Limited and the Kwun Tong Property, please refer to the Company's announcement dated 2 June 2011 for details. As the proposed acquisition of the entire issued share capital of Adelio Holdings Limited constitutes a very substantial acquisition of the Company under the Listing Rules, the proposed acquisition is subject to the Shareholders' approval at a special general meeting. The Directors are of view that the proposed acquisition of the entire issued share capital of Adelio Holdings Limited represents a good opportunity for the Company to participate in the property market in Hong Kong and enable the Group to enjoy the benefit from the capital appreciation of the property investment and the positive impact on the profitability of the Group. It is currently intended by the Group that it will hold the Kwun Tong Property as an investment property for resale purpose.

The Retails Portion is currently leased to independent third parties for retailing and the Serviced Apartments Portion is operated as serviced apartments. The Enlarged Group currently intends to hold the Property as a long-term investment for rental purposes.

Following Completion, the Target Companies will become subsidiaries of the Company. Upon Completion, the Enlarged Group will carry out property investment business and serviced apartments business in Hong Kong via Citadines TST and Citadines TST Management. The Directors believe that the Acquisition will not only provide the Enlarged Group with an opportunity for capital appreciation of the property, but also a stable income source to the Enlarged Group, which strengthens the business of the Enlarged Group.

On 12 September 2011, Rich Daily has been informed by the Gaming Promoter that the Services Agreement, which is one of the services agreements held by Rich Daily, will be terminated with effect from the date after the first anniversary of the Termination Notice. Pursuant to the terms of the Services Agreement, the Gaming Promoter or Rich Daily may terminate the Services Agreement by giving not less than 12 month's prior written notice.

According to a preliminary assessment by the Directors, it is expected that the termination of the Services Agreement have the following financial impacts on the Enlarged Group:

- (a) given the termination of the Services Agreement becoming effective on 12 September 2012, there is no immediate impact on the revenue of the Enlarged Group's provision of management services business for the year ending 31 December 2011 and the six months ending 30 June 2012;



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## LETTER FROM THE BOARD

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- (b) Rich Daily shall continue to carry out the business of provision of management services to the concierge department of other gaming promoter in Macau after 12 September 2012, being the date on which the termination of the Services Agreement becoming effective, pursuant to the remaining services agreement held by it;
- (c) given that the management services fee income generated from the Services Agreement represents approximately 77% and 92% of the total revenue of the Enlarged Group for the year ended 31 December 2010 and the six months ended 30 June 2011 respectively or approximately 82% and 92% of the total revenue of the Enlarged Group's provision of management services business for the year ended 31 December 2010 and the six months ended 30 June 2011 respectively,
  - (i) there will be a substantial decrease in the revenue of the Enlarged Group's provision of management services business from 12 September 2012, being the date of termination of the Services Agreement; and
  - (ii) a substantial impairment loss in respect of intangible assets shall be recognised in the year ending 31 December 2011; and
- (d) the Enlarged Group may incur a substantial loss for the year ending 31 December 2011 as a result of the recognition of the impairment loss.

Despite the above financial impacts on the Enlarged Group, the Directors are of the view that the financial position of the Enlarged Group remains sound.

As the termination of the Services Agreement becomes effective on 12 September 2012 and the Enlarged Group has resources and expertise in provision of management services available, the Directors shall actively explore opportunities in providing management services to the concierge departments of other gaming promoters in Macau in order to revitalise the Enlarged Group's provision of management services business.

Following Completion and the termination of the Services Agreement, the Enlarged Group will continue to carry out its existing businesses. In addition, the Directors have no agreement, arrangement, understanding, intention or negotiation about any disposal, termination or scaling-down of the Enlarged Group's existing businesses.

Other than property investment and development, the Directors are active in identifying potential investment targets and expanding new business activities for distributing constant real return to the Shareholders.

### FINANCIAL EFFECTS OF THE ACQUISITION

#### Assets

As at 31 December 2010, the audited consolidated total assets of the Group amounted to HK\$1,397.40 million.

As set out in Appendix VI to this circular, assuming completion of the Acquisition had taken place on 31 December 2010, the unaudited pro forma consolidated total assets of the Enlarged Group would be increased to HK\$1,421.30 million.

#### Liabilities

As at 31 December 2010, the audited consolidated total liabilities of the Group amounted to HK\$52.74 million.

As set out in Appendix VI to this circular, assuming completion of the Acquisition had taken place on 31 December 2010, the unaudited pro forma consolidated total liabilities of the Enlarged Group would be increased to HK\$63.35 million.

#### Earnings

The Group recorded an audited consolidated loss of HK\$356.46 million for the year ended 31 December 2010.

As set out in Appendix VI to this circular, assuming completion of the Acquisition had taken place on 1 January 2010, the unaudited pro forma consolidated loss of the Enlarged Group for the year ended 31 December 2010 would be reduced to HK\$350.91 million.

#### Gearing

As at 31 December 2010, the Group had no borrowings.

Assuming completion of the Acquisition had taken place on 31 December 2010, the Group would have no borrowings.

### RISKS FACTORS

#### **The Company is entering into large-scale investment in new business and may pose significant challenges to the Enlarged Group**

The Company is entering into a large-scale investment which may pose significant challenges to the Enlarged Group's administrative, financial and operational resources.

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## LETTER FROM THE BOARD

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Although the Target Companies generated profit in the last two financial years, the Board is not in a position to assure the timing and amount of any return that may be generated from the new business, nor is it in a position to control the operational risks that could lead to a loss of the Enlarged Group in future. In such respect, as a risk mitigating measure and an integral part of the Acquisition, the Company will engage a serviced apartments operator to provide management service of the Serviced Apartments Portion. The serviced apartments operator will be responsible for supervisory, directly and controlling day to day affairs of the Serviced Apartments Portion and the Board will closely monitor the operations of the serviced apartments business so as to ensure the existing plan of the operations of the Target Companies and the Serviced Apartments Portion can be carried out properly as it used to be upon Completion. Accordingly, the Board will hold meeting with management team of serviced apartments operator on regular basis to monitor the status of the serviced apartments business to mitigate such risk.

### **Regulations**

As disclosed in the section headed “Information of the Property”, the Building Authority considers the change in use from non-domestic to domestic is a material change in use of the Serviced Apartments Portion, the Building Authority may require the owner or occupier to discontinue such present use of the Serviced Apartments Portion within one month from the service of the order and the operations of serviced apartments will be ceased. Although the Company can make an application to the Buildings Department for the change in use specified in the occupation permit of the Serviced Apartments Portion as and when appropriate, there is a risk the change in use of the Serviced Apartments Portion may not be approved by the Building Authority. In the event that such application is denied by the Building Authority, the serviced apartments business will be ceased. The Company will consider to convert the Serviced Apartments Portion into commercial offices for rental purpose.

Save for the information disclosed above, during the due diligence exercise undertaken by the Company and its professional advisers, they may not have identified all material defects, breaches of laws and regulations and other deficiencies. Any material defect, breach of laws and regulations and other deficiencies, including latent of the Property or equipment defects, which has not been identified by the Company will subject to the enforcement action taken by the Hong Kong Government, this may adversely affect the financial condition, results of operations and prospects of the Enlarged Group.

Given Mr. Cheung Kwok Fan, the non-executive Director, is a member of The Hong Kong Institute of Architects, a member of The Royal Australian Institute of Architects, Registered Architect in Hong Kong and an Authorised Person in the list of architects in Hong Kong, the Board shall obtain Mr. Cheung Kwok Fan’s opinions when working closely with the Company’s legal advisers and reporting accountants in order to mitigate the risk on regulations.

### **Renewal of hotel and guesthouse license**

Operating serviced apartments in Hong Kong is required to obtain a hotel and guesthouse license and renew it on an ongoing basis. The validity period of such license range from 12 to 84 months. The Enlarged Group cannot assure that the conditions or requirements which may be required by the regulators for the application will not change or increase from year-to-year. If the Enlarged Group is unable to renew such license in a timely manner or if the relevant government authority does not approve renewal application for the license, the Enlarged Group may be subject to fines or penalties and may be required to cease the serviced apartments operations, which may have a material adverse effect on financial condition and results of operations of the Enlarged Group.

According to the Vendor, the Serviced Apartments Portion has been operating as serviced apartments and a hotel and guesthouse license has been granted to Citadines TST Management by the Hotel and Guesthouse Accommodation Authority since 2006. In September 2011, the hotel and guesthouse license in respect of the Serviced Apartments Portion was issued by Hotel and Guesthouse Accommodation Authority to Citadines TST Management with validity period of 36 months to 30 September 2014.

In the event that the Enlarged Group is not able to renew the hotel and guesthouse license in respect of the Serviced Apartments Portion, the Enlarged Group shall convert the Serviced Apartments Portion into commercial offices for renting. Based on an estimation done by Savills, the property agent of the Property, the cost involved for conversion is HK\$5.0 million to HK\$6.0 million.

### **Substantial decline in fair value of the Property may affect the financial position of the Enlarged Group**

The Hong Kong Government has always been mindful of the risk of a property market bubble, as well as the repercussions of wild fluctuation in property prices on the overall economic and financial stability. The Hong Kong Government implemented a package of market-cooling measures to ensure a stable and healthy property market as early as in February 2010. These measures are (i) new guidelines for developers requiring full disclosure, and restricting overly aggressive advertisements including the use of “show flats”; (ii) developers are required to announce house prices three days before selling any unit, and to disclose transactions involving company executives and their relatives; (iii) the Hong Kong Government raised the stamp duty for luxury homes and promised to increase land supply; (iv) in August 2010, the Hong Kong Government pledged to sell more land to

private property developers; (v) the Hong Kong Government will also supply about 61,000 private housing units over the next 3 to 4 years; (vi) the Hong Kong Government will temporarily stop offering residency to foreign property buyers under the Capital Investment Entrant Scheme; and (vii) the Hong Kong Government plans to introduce a rent-to-buy program for first-time homebuyers. These measures may affect the fair value of the Property. Furthermore, the fair value of the Property can be affected by numerous factors which are beyond the control of the Enlarged Group, including but not limited to, Hong Kong's economic conditions and global economic conditions or substantial increasing in interest rate of mortgage loan, which in turn affect the fair value of the Property. Any significant and sustained adverse changes of the global economic conditions may shrink the overall economy of Hong Kong. However, the Board considers that any adjustments to the fair value of the Property will not have financial impact to the operation of the Enlarged Group in long term.

### **Intense and growing competition**

The competitors of the hotel accommodation business range from operators of single guesthouses and hotels, local hotel chains with multiple hotels and to large international hotel chains operating multiple hotels under a variety of brand names. Competition for long stay guests is also increasingly arising from a proliferating number of operators of serviced apartments. The competition to attract customers is primarily based on the location of the hotels/serviced apartments, price, property size, quality of rooms, amenities and facilities, customer brand recognition and loyalty, geographic coverage quality of services provided, and relationship with travel agents and third party wholesalers. Many of other competitors have operated in the industry for substantially longer periods of time and have accumulated more operational, managerial, sales and marketing experience, brand recognition, human resources and financial resources. Further, the barriers to entry into the hotel accommodation business for new participants, particularly in the value and small-scale categories, are relatively low given the limited capital required to convert or redevelop existing buildings into value and small-scale hotels.

In light of the above, the competitions in hotel accommodation business in Hong Kong may increasingly be driven by the supply of available hotel rooms or serviced apartments and therefore may negatively impact occupancy levels and room rates. The Board also cannot assure that the Enlarged Group will be able to successfully compete against the current and future competitors. In particular, if more established competitors engage in significant and sustained price discounting to attract customers and the Enlarged Group is forced to substantially reduce its own prices to maintain occupancy levels, it would have a material adverse effect on its revenues, profit margins and results of operations.

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## LETTER FROM THE BOARD

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Furthermore, the continued success in maintaining and enhancing the recognition of the brand depends, to a large extent, on the ability of the Enlarged Group to provide consistent and high-quality accommodations and services in respect of the Serviced Apartments Portion to meet customer demands, as well as the ability to respond to competitive pressures. In addition, the Enlarged Group must maintain the Property in good condition and attractive appearance, which requires ongoing renovations and other improvements, including periodic repair and replacement of furniture, fixtures and equipment. If the Enlarged Group is unable to maintain and enhance its brand reputation, the occupancy and room rates may decline, which would adversely affect business and results of operations of the Enlarged Group.

The Board shall regularly review the business strategy of the new business in conjunction with the operating performance of the Serviced Apartments Portion with the serviced apartments operator and determine whether it is necessary to redefine the business strategy in respond to competition.

### **Seasonal fluctuations**

Hotel accommodation for short and long stay leisure and business travelers are seasonal in nature and can cause fluctuations in the Enlarged Group's revenue and financial condition. This seasonality can be expected to cause periodic fluctuations in the occupancy of the serviced apartments. There is no assurance the Enlarged Group's cash flow will be sufficient to offset any shortfalls that occur as a result of these fluctuations. The Enlarged Group may have to enter into short-term borrowings in order to enhance the cash flow position at any time during a financial year. As a result, volatility in the financial performance resulting from the seasonality of the hotel industry could have a material adverse effect on the Enlarged Group's revenue and financial condition.

Subject to the discussion with the serviced apartments operator, it is expected that the Enlarged Group shall adopt a flexible pricing strategy for the Serviced Apartments Portion in order to maintain the occupancy rate at a breakeven level during a low season period.

### **Adverse weather conditions, epidemics, natural disasters and other catastrophes, wars, the threat of terrorist attacks and the occurrence of international or political crises**

The Enlarged Group's financial and operating performance may be adversely affected by adverse weather conditions, epidemics, natural disasters and other catastrophes, wars, the threat of terrorist attacks and the occurrence of international and political crises, particularly in Hong Kong. Losses caused by adverse weather conditions, epidemics,

natural disasters and other catastrophes, such as severe acute respiratory syndrome, avian flu, swine flu, earthquakes, typhoons, wars and terrorist attacks are either uninsurable or too expensive to justify insuring against. In the event an uninsured loss or a loss in excess of insured limits occurs, the Enlarged Group could lose all or a portion of the capital it invests in the Property, as well as the anticipated future revenue from the Property. Similarly, wars (including the potential of war), terrorist attacks (including threats of terrorist attacks), as well as geopolitical uncertainty and international conflict, may affect traveling and may in turn have a material adverse effect on the business and operating results of the Enlarged Group.

### **Sensitive to global economy**

The serviced apartments business of the Enlarged Group may be adversely affected by a reduction in leisure and business travel or consumer spending as a result of a downturn in the global economy. Demand for the hotel accommodation for short and long stay leisure and business travelers is particularly sensitive to the global economy. Any adverse changes in consumer preferences, level of travel or discretionary consumer spending caused by factors such as deterioration in general economic conditions, decrease in disposable consumer income, fear of recession or decline in consumer confidence in the economy can reduce demand the hotel accommodation. Accordingly, the serviced apartments business of the Enlarged Group will be adversely affected.

### **No operating history of the Enlarged Group in hotel accommodation business in Hong Kong makes it difficult to evaluate the future prospects and results of operations of the Target Companies**

The Enlarged Group has no operating history in hotel accommodation business market in Hong Kong, including sales and marketing arrangement in hotel business. No operating history in hotel accommodation business in Hong Kong makes it difficult to evaluate the prospects in that market. Shareholders should consider the future prospects in the hotel accommodation business market in light of the risks and challenges encountered by a company with no operating history. These risks and challenges include, the uncertainties associated with the Enlarged Group's ability to continue to its growth and maintain profitability; improving and preserving its competitive position in the hotel industry; offering consistent and high-quality accommodations and services to retain and attract guests; implementing of strategy and modifying it from time to time to respond effectively to competition and changes in customer preferences; limited awareness of the hotel brands and customer loyalty; and recruiting, training and retaining qualified managerial and other personnel. If the Enlarged Group is unsuccessful in addressing any of these risks or challenges, the business may be materially and adversely affected.

To mitigate such risk, the Enlarged Group shall engage an experienced serviced apartments operator for providing management services to Citadines TST Management.

### **Dependency of the rental income**

Leasing of the Retails Portion and Serviced Apartments Portion will provide stable source of income to the Enlarged Group. The Enlarged Group may subject to risks incidental to rental property sector, among other things, changes in market rental levels, competition for tenants in both retail property sector and serviced apartments sector and inability to collect rent from tenants or renew leases with tenants due to many reasons. In addition, the Enlarged Group may not be able to renew leases with its retail's tenants on terms acceptable to the Enlarged Group, or at all, upon the expiration of the existing terms of the lease. Furthermore, any downturn in the rental market for retails sector and serviced apartments sector could negatively affect the demand for its rental property and the amount of rental income to be earned by the Enlarged Group. In such case, it may material effect the business, results of operations and financial position of the Enlarged Group.

Other than usual course of business, the Property may require substantial amounts of expenditure, such as refurbishments or redevelopments, which the Enlarged Group may not anticipate as at the Latest Practicable Date. If the operating cashflows of the Property unable to finance itself for such expenditures, additional capital expenditures may be required by the Enlarged Group which may effect the financial position of the Enlarged Group.

### **Heavily reliance of the serviced apartments operator to manage the Property**

In lieu of the management of the Enlarged Group has no experience in the field of hotel/serviced apartments managing experience which leads to the management of the Enlarged Group heavily reliant third party expertise for managing the hotel/serviced apartment business of the Serviced Apartments Portion. The Enlarged Group's ability to compete and succeed in the new business is dependent on it retaining the management services of the serviced apartments operator or key personnel of such operator. As the serviced apartments operator is responsible for supervising, directing and controlling day to day affairs of the Serviced Apartments Portion, the loss of management services provided by the serviced apartments operator, in the absence of any suitable replacement, may have a negative impact on the Enlarged Group's operations and future profitability. Furthermore, if the operator to be appointed cannot maintain the occupancy rate of the hotel/serviced apartment at a moderate level and to operate the Serviced Apartments Portion in an effective and efficient manner, the Enlarged Group might incur the operating costs, such as payroll and utilities, and suffer adverse effect on this new business, financial condition and results of operations.



To mitigate such risk, the Enlarged Group shall exercise extreme due care in the selection stage of serviced apartments operator and the contract negotiation stage of management services agreement with the prospective serviced apartments operator. The management services agreement to be entered into between the Enlarged Group and the serviced apartments operator shall allow the Enlarged Group to terminate the management services agreement in the event that the Serviced Apartments Portion is required to cease its operations in accordance with the laws of Hong Kong.

### **Economic factors affecting the property rental industry**

The global financial crisis that unfolded in 2008 and continued during 2009 resulted in a marked slowdown in world economic growth, economic contractions in certain markets, more commercial and consumer delinquencies, weakened consumer confidence and increased market volatility in Hong Kong. The slowdown of the worldwide economy also caused a decrease in rental prices of property in Hong Kong. The market volatility and uncertainty caused by the global financial crisis also contributed to a lower demand for properties and serviced apartments and decline in their rents. While there are signs that the economies of Hong Kong has begun to recover, the Enlarged Group cannot assure that the global financial crisis will not return or any other factors which may affect the economy globally. Any global economic slowdown may adversely affect the business of the tenants of retail sector or of serviced apartments sector and decrease in the rents of the Property. It could reduce the rental income from the Property and have material impact on the results of operation of the Enlarged Group.

### **Accidents, injuries or prohibited activities in the Property and associated potential liabilities**

There are inherent risks of accidents, injuries or prohibited activities (such as illegal drug use, gambling, violence or prostitution by guests) taking place in the Property. The occurrence of one or more accidents, injuries or prohibited activities at the Property could adversely affect the safety reputation of the Serviced Apartments Portion among guests, decrease the occupancy rate and increase the Enlarged Group's costs by requiring the Enlarged Group to implement additional safety measures. In addition, if accidents, injures or prohibited activities occur at the Property, the Enlarged Group may be held liable for costs or damages and fines. The property and liability insurance policies of the Property may not provide adequate or any coverage for such losses, and the Enlarged Group may not be able to renew its insurance policies or obtain new insurance policies without increase in premium and deductible or decrease in coverage level, or at all.

### **Inadequate insurance coverage to protect the Enlarged Group from all possible losses**

The Enlarged Group's operations may be affected by a number of risks, including business interruption or potential damage to the Enlarged Group's facilities and equipment caused by adverse weather conditions, human error, terrorist attack, war, pollution or labour disputes. Moreover, the Enlarged Group faces risks relating to provision of services to guests such as causing damage to guests' belongings. Consistent with industry practice, the Enlarged Group does not maintain insurance against all risks associated with the hotel and guesthouse industry, either because the Directors have deemed it commercially unfeasible to do so, or the risk is minimal, or the premium is not justifiable, or because the insurers have carved certain risks out of their standard policies. These risks include, but not limit to, events such as the loss of business arising from increased competition, the loss of any business resulting from negative effects on the changing business cycles or supply of rooms. If an incident occurs in relation to which the Enlarged Group has inadequate insurance coverage, the business, financial position and operating results of the Enlarged Group could be materially and adversely affected. Further, the Directors cannot guarantee that the Enlarged Group will be able to renew the existing insurance policies on commercially reasonable terms, or at all.

To mitigate such risk, the Enlarged Group and the serviced apartments operator shall work with a reputable insurance agent for coming up an insurance for the Property with proper coverage, in light of the premium paid verse the performance budget of the Property.

### **Unauthorised change in use of the Serviced Apartments Portion**

According to the occupation permit of the Property issued by the Building Authority, the 1st to 21st floor of the Property shall be used as offices and ancillary accommodation on each floor for non-domestic use. The Serviced Apartments Portion is currently used for carrying on the business of hotel/serviced apartments and ancillary purpose for domestic use. In the event that the Building Authority considers that the change in use of the Serviced Apartments Portion into the current use is a contravention of the provision of the Buildings Ordinance pursuant to Section 25 of the Buildings Ordinance, the operations of the Serviced Apartments Portion has to be ceased within one month from the service of the order by the Building Authority and the Serviced Apartments Portion has to be converted into commercial offices for rental purpose. Based on an estimation done by Savills, the property agent of the Property, the cost involved for renovation is HK\$5.0 million to HK\$6.0 million and the renovation period is three to six months. As most multinational corporations establish/will establish offices in Hong Kong in order to capture the PRC market, the demand for commercial offices remain strong. It is expected that the newly renovated commercial offices will be fully occupied within six months after the completion of renovation works. Accordingly, the business, results of operations and financial position of the Enlarged Group may be material affected during such period.

### **Disruption from redevelopment and/or renovation of adjacent properties**

Given most of the properties at Ashley Road, Tsimshatsui, Kowloon were built prior to 1980s, there are chances that these properties may be acquired by properties developers for redevelopment purpose and/or renovated by their owners for regular maintenance. Any redevelopment and/or renovation works of adjacent properties will inevitably affect the surrounding environment of the Property. As such, the occupancy rate of the Serviced Apartments Portion and the rental of the Retails Portion may be affected by such redevelopment and/or renovation works. Accordingly, the business, operating results and financial position of the Enlarged Group may be adversely affected.

### **IMPLICATIONS UNDER THE LISTING RULES**

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. The Sale and Purchase Agreement, the Deed of Assignment and the transactions contemplated under the Sale and Purchase Agreement are therefore subject to the Shareholders' approval at the SGM. The SGM will be convened to approve the Sale and Purchase Agreement, the Deed of Assignment and the transactions contemplated under the Sale and Purchase Agreement. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, no Shareholder is required to abstain from voting to approve the Sale and Purchase Agreement, the Deed of Assignment and the transactions contemplated under the Sale and Purchase Agreement at the SGM.

### **THE SGM**

A notice convening the SGM to be held at Macau Jockey Club, 1/F Function Room, 1st Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Thursday, 3 November 2011 at 3:00 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the resolutions to approve the Sale and Purchase Agreement, the Deed of Assignment and the transactions contemplated under the Sale and Purchase Agreement is set out on pages 185 to 186 of this circular.

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

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Directors are of the opinion that the Sale and Purchase Agreement, the Deed of Assignment and the transactions contemplated under the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders should vote in favour of the resolutions proposed at the SGM.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of  
**Eternity Investment Limited**  
**Lei Hong Wai**  
*Chairman*

**MANAGEMENT DISCUSSION AND ANALYSIS EXTRACTED FROM ANNUAL REPORTS OF THE COMPANY**

Set out below is the management discussion and analysis extracted from the annual and the interim report of the Company for the six months ended 30 June 2011 report of the Company for each of the three years ended 31 December 2008, 2009 and 2010.

**(I) FOR THE SIX MONTHS ENDED 30 JUNE 2011****Financial Review***Results of operations*

During the six months ended 30 June 2011, the Group recorded a revenue of HK\$45,074,000, a 37% increase from HK\$32,784,000 for the same period of the previous year. This increase was mainly attributable to the increase in services fee income generated from provision of management services business. Profit for the six months ended 30 June 2011 amounted to HK\$63,612,000, a 82% increase from HK\$35,024,000 for the correspondence period in 2010. This increase was mainly attributable to the recognition of a reversal of impairment loss on intangible assets of HK\$47,691,000.

No cost of sales was recorded for the six months ended 30 June 2011 as the Group has ceased to operate the concierge services centre at Shun Tak Centre in order to improve its cost structure.

Other revenue and other income decreased by 51% from HK\$6,831,000 in the six months ended 30 June 2010 to HK\$3,328,000 in the six months ended 30 June 2011. This was mainly attributable to no imputed interest income as China Star Film Group Limited (now known as KH Investment Holdings Limited) repaid the convertible notes receivable of HK\$100,000,000 and the promissory note receivable of HK\$100,000,000 in May 2010.

Administrative expenses (before depreciation) amounted to HK\$11,191,000 for the six months ended 30 June 2011, a 105% increase from HK\$5,462,000 for the same period of the previous year. This significant increase was mainly attributable to the increase in legal and professional fees resulted from increased corporate activities in acquisitions.

The directors reassessed the recoverable amounts of management services agreements held by the Group at 30 June 2011 with reference to the valuations performed by an independent firm of professional valuers and, in light of the consistent growth in services fee income and the constant strong growth in Macau VIP gaming revenue, recognised a reversal of impairment loss on intangible assets of HK\$47,691,000.

Due to a downturn in Hong Kong equities in the second quarter of 2011, the Group recognised a loss of HK\$15,454,000 arising on change in fair value of financial assets at fair value through profit or loss.

No finance costs were recorded in the six months ended 30 June 2011 as the Group redeemed the convertible note payable of HK\$72,000,000 in July 2010.

The Group recorded an income tax expense of HK\$5,723,000 which represents the deferred tax expense on reversal of impairment loss on intangible assets recognised in the six months ended 30 June 2011.

#### ***Liquidity and financial resources***

During the six months ended 30 June 2011, the Group funded its operations through a combination of cash generated from operations, equity attributable to owners of the Company and issue of new shares. Equity attributable to owners of the Company increased from HK\$1,344,663,000 at 31 December 2010 to HK\$1,399,037,000 at 30 June 2011.

At 30 June 2011, the cash and cash equivalents of the Group amounted to HK\$848,299,000 (31 December 2010: HK\$989,625,000).

At 30 June 2011, the Group had no borrowings (31 December 2010: Nil).

#### ***Net current assets and current ratio***

At 30 June 2011, the Group's net current assets and current ratio were HK\$996,511,000 (31 December 2010: HK\$994,811,000) and 67.22 (31 December 2010: 80.09), respectively.

***Capital structure***

On 17 June 2011, the Company issued 220,280,000 new shares at a price of HK\$0.135 per new share by way of a top-up placing under general mandate raising HK\$29,400,000 (net of expenses). The net proceeds from the top-up placing will be used in financing the proposed acquisition of the entire issued share capital of Adelio Holdings Limited as announced by the Company on 2 June 2011.

On 7 June 2011, the Company announced the issue of not less than 5,510,560,980 new shares and not more than 6,619,444,395 new shares by way of open offer to the qualifying shareholders of the Company on the basis of five new shares for every one existing share held on 25 July 2011 at a price of HK\$0.04 per new share. The open offer was expected to raise not less than HK\$216,330,000 but not more than HK\$260,680,000 (net of expenses) in additional capital for the Company. The net proceeds will be used in financing the proposed acquisition of the entire issued share capital of Adelio Holdings Limited as announced by the Company on 2 June 2011. The open offer was approved by the shareholders, other than Mr. Lei Hong Wai and Mr. Chan Kin Wah, Billy, both of them are directors, and their respective associates on the special general meeting of the Company held on 14 July 2011. The open offer was completed on 15 August 2011 raising HK\$260,390,000 (net of expenses).

***Material acquisitions***

On 29 March 2011, the Group signed an irrevocable undertaking to subscribe for 200,000,000 new shares in China Star Entertainment Limited (“China Star”) at a subscription price of HK\$0.25 per new share to which the Group was entitled to under the rights issue as announced by China Star on the same date. The subscription price for the 200,000,000 new shares in China Star amounted to HK\$50,000,000. The reasons for the Group for giving the irrevocable undertaking are to maintain its substantial level of shareholding interest in China Star and facilitate the rights issue for raising additional capital to strengthen China Star’s capital base. The subscription of 200,000,000 new shares in China Star was completed on 29 June 2011.

***Material disposals***

During the six months ended 30 June 2011, the Group had no material disposals.

***Pledge of assets***

At 30 June 2011, no assets of the Group were pledged.

***Commitments***

At 30 June 2011, the Group had the following material commitments:

- (a) a commitment of HK\$650,000,000 in respect of the proposed subscription of the convertible bonds to be issued by China Star in two tranches;
- (b) a commitment of HK\$240,550,000 in respect of the proposed acquisition of the entire issued share capital of Citadines TST and Citadines TST Management; and
- (c) a commitment of HK\$222,600,000 in respect of the proposed acquisition of the entire issued share capital of Adelio Holdings Limited.

***Exchange risk and hedging***

During the six months ended 30 June 2011, a majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by the Group.

***Contingent liabilities***

At 30 June 2011, the Group had no material contingent liabilities.

***Employees and remuneration policy***

At 30 June 2011, the headcount of the Group was 10 (2010: 9). Staff costs (including directors' remuneration) amounted to HK\$1,733,000 (2010: HK\$2,327,000). In addition to basic salaries, provident fund and discretionary bonus, staff benefits include medical scheme and share options.

**Operations Review**

During the six months ended 30 June 2011, no revenue was generated from the Group's film distribution business as the Group was not able to secure quality films at reasonable prices for distribution.



Hong Kong equities fell during a volatile early June 2011 due to concerns over weakening global economic growth, intensified European sovereign debt crises as well as fears of a hard landing in China. Accordingly, the Group recorded an impairment loss of HK\$15,454,000 for its sale of financial assets business in the six months ended 30 June 2011.

During the six months ended 30 June 2011, the Group's provision of management services business generated services fee income amounted to HK\$45,074,000, a 29% increase as compared to the same period of the previous year. This increase was mainly due to a strong growth in Macau VIP gaming revenue in the first half of 2011. The directors believe that such strong growth was led by the increases in bet sizes and income of China citizens. Having performed a cost and benefit analysis, the Group has ceased to operate the concierge services centre at Shun Tak Centre in order to improve its cost structure.

On 21 January 2011, the Company entered into the conditional subscription agreement with China Star relating to the proposed subscription of the convertible bonds in the maximum principal amount of HK\$650,000,000 in two tranches at their face value. The convertible bonds are unsecured, interest bearing at 8% per annum and maturing on the fifth anniversary of the date of their issue. The convertible bonds carry rights entitling the holder thereof to convert their principal amount into shares in China Star at an adjusted conversion price of HK\$0.44 per share (subject to further adjustment). As China Star has diversified its businesses by expanding into property development business in Macau, the directors consider that the subscription of the convertible bonds would enable the Company to participate in the development of China Star and provide the Company with the flexibility to be benefited from the interest income of 8% per annum from the convertible bonds as well as the upside of the share price performance of China Star through conversion of part or whole of the convertible bonds into shares in China Star. The subscription of the convertible bonds of HK\$650,000,000 is financed by internal resources of the Group. The conditional subscription agreement was approved by the shareholders at the special general meeting of the Company held on 30 June 2011. The subscription of the first tranche of the convertible bonds of HK\$350,000,000 was completed on 7 July 2011.

With a view to improve profitability and diversify revenue sources, the Group re-enters into property investment business by entering into the following two transactions:

- (a) On 4 April 2011, the Group entered into the conditional sale and purchase agreement with Citadines Ashley TST (Singapore) Pte. Ltd., an independent third party, relating to the proposed acquisition of the entire issued share capital of Citadines Ashley TST (Hong Kong) Limited (the “Citadines TST”) and Citadines Ashley TST Management (Hong Kong) Limited (the “Citadines TST Management”) at a cash consideration of HK\$283,000,000.

The principal asset of Citadines TST is the whole block of “Citadines Ashley Hongkong” located at 18 Ashley Road, Tsimshatsui, Kowloon, Hong Kong (the “Ashley Property”). Citadines TST Management is a company providing management service to the Ashley Property. The Ashley Property comprises 20-storey, which was built in 1998 with a total gross floor area of 28,338 square feet. The ground floor to 3rd floor are designated for shops and retails purposes. The upper floors are used as serviced apartments with 36 units. The Group currently intends to hold the Ashley Property as a long-term investment for rental purpose. The consideration is financed by the net proceeds from the rights issue as announced by the Company on 28 July 2010.

- (b) On 25 May 2011, the Group entered into the conditional sale and purchase agreement with Vartan Holdings Limited, an independent third party, relating to the proposed acquisition of the entire issued share capital of Adelio Holdings Limited at a cash consideration of HK\$267,600,000.

The principal asset of Adelio Holdings Limited is its indirect wholly-owned subsidiary, namely Rexdale Investment Limited. Rexdale Investment Limited is a property investment company holding the 1st floor, the 6th to 12th floors and 11 car parking spaces of The Grande Building located at 398 Kwun Tong Road, Kowloon, Hong Kong (the “Kwun Tong Property”). The Grande Building is an industrial building comprises 13-storey, which was built in 1981. The Kwun Tong Property has a total gross floor area of 139,412 square feet. It is currently intended by the Group that it will hold the Kwun Tong Property as investment property for resale purpose. The consideration is financed by the net proceeds from the top-up placing under general mandate and the open offer as announced by the Company on 7 June 2011.

The two proposed acquisitions are subject to shareholders' approval. As the Group is carrying out due diligence investigations in respect of the subjected companies and preparing the circulars in respect of the proposed acquisitions, the special general meetings of the Company for approving the proposed acquisitions are expected to be held in the second half of 2011.

### **Future Prospects**

For the remainder of 2011, the directors believe that ongoing concerns over weakening global economic growth, intensified European sovereign debt crises, the US government debt and deficit issues and fears of a hard landing in China continue to weigh on global equities. Given the significance of the US sovereign downgrade, markets are likely to remain data sensitive and volatile. As such, the Group will adopt a more conservative investment attitude toward its sale of financial assets business.

Despite the fact that Macau gaming recorded a 49% growth in its VIP segment in the first half of 2011, the directors believe that a tighter China credit market and an uncertainty on the global economic environment may have slowed the VIP revenue growth in the second half. Accordingly, the directors expect that the overall performance of the Group's provision of management services business will report a moderate growth in the second half of 2011.

With a view to improve profitability and diversify revenue sources, the directors have spent considerable effort in expanding into property investment business. During the first half of 2011, the Group entered into two conditional sale and purchase agreements with two independent third parties for acquiring the Ashley Property and the Kwun Tong Property. The proposed acquisitions enable the Group to enjoy a stable rental income flow in the short run and an opportunity for capital gain in the long run. The proposed acquisitions are subject to shareholders' approval and expected to be completed in the second half of this year.

To broaden its business portfolio and revenue sources, the Group obtained the sole and exclusive right and master license relating to establish, operate, manage the franchise business of selling noodles, drinks and related Japanese food products from a Japanese Corporation on 6 July 2011. The sole and exclusive right and master license is for a period of ten years until 14 July 2021 covering the Greater China Region. The directors are formulating a business plan for the franchise business and announcements will be made as and when required pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In the second half of 2011, the Group will continue to cautiously monitor the business environment and continue to strengthen its business foundations by focusing on its existing business, implementing prudent cost control strategies and identifying potential investment opportunities to maximize the returns of the Company's shareholders.

### **Events after the Reporting Period**

Subsequent to 30 June 2011, the Group had the following material events:

- (a) On 7 July 2011, Wingo Consultants Limited, a wholly-owned subsidiary of the Company, subscribed for the first tranche of the convertible bonds of HK\$350,000,000 issued by China Star pursuant to the conditional subscription agreement dated 21 January 2011 and entered into between the Company and China Star.
- (b) On 15 August 2011, the open offer of 6,611,960,980 new shares to the qualifying shareholders of the Company on the basis of five new shares for every one existing share held on 25 July 2011 at HK\$0.04 per new share was completed.

## **(II) FOR THE YEAR ENDED 31 DECEMBER 2010**

### **Financial Review**

#### ***Results of operations***

During the year ended 31 December 2010, the Group recorded a revenue of HK\$78,200,000, a 4.67% increase from HK\$74,711,000 for the previous year. Of the total turnover amount, HK\$73,610,000 was generated from provision of management services and HK\$4,590,000 was generated from sales of financial assets. Loss for the year ended 31 December 2010 amounted to HK\$356,457,000, whereas the Group recorded a profit of HK\$416,562,000 for the previous year. The deterioration was mainly attributable to a loss on deemed disposal of an associate of HK\$537,615,000 which was partly offset by a gain on early repayment of promissory note receivable of HK\$64,627,000 and a gain on early repayment of convertible notes receivable of HK\$75,962,000.

Cost of sales for the year amounted to HK\$632,000, which was wholly related to provision of management services. Based on the turnover of HK\$73,610,000, the gross profit margin for provision of management services was 99.14%.

Other revenue and other income increased by 45.70% from HK\$11,905,000 in the year ended 31 December 2009 to HK\$17,346,000 in the year ended 31 December 2010. This increase was mainly attributable to the receipt of a compensation of HK\$4,938,000 for a shortfall in service fee income guarantee given to the Group.

Administrative expenses (before depreciation and impairment loss recognised in respect of trade receivables) amounted to HK\$13,943,000 for the year ended 31 December 2010, a 16.18% decrease from HK\$16,634,000 for the previous year. This decrease was mainly attributable to the decreases in share-based payment expenses in respect of consultancy services and staff costs which were partly offset by the increases in legal and professional fees and office rental.

The directors reassessed the recoverable amounts of management services agreements held by the Group at the end of financial year of 2010 with reference to the valuations performed by an independent firm of professional valuers and, in light of the non-achievement of the service fee income guarantee for the 12-month ended 30 June 2010, an impairment loss on intangible assets of HK\$4,856,000 was recognised.

During the year ended 31 December 2010, the Group ceased to have significant influence over China Star Film Group Limited (“China Star Film”, now known as KH Investment Holdings Limited) and was deemed to dispose of its shareholding interest in China Star. As a result, the Group discontinued to account for China Star Film and China Star as associates. The Group reclassified its investments in China Star Film and China Star as financial assets at fair value through profit or loss and available-for-sale financial assets, respectively. Accordingly, the Group recognised a loss on losing significant influence of an associate of HK\$21,028,000, a loss on deemed disposal of an associate of HK\$537,615,000 and a loss arising on change in fair value of available-for-sale financial assets of HK\$14,280,000. Please refer to the section headed “Material disposals” below for more details.

During the year ended 31 December 2010, China Star Film and China Star contributed losses of HK\$543,000 and HK\$8,828,000 to the Group respectively.

On 26 May 2010, the convertible notes receivable of HK\$100,000,000 and the promissory note receivable of HK\$100,000,000 were repaid by China Star Film before their maturity. The Group recorded a gain on early repayment of promissory note receivable of HK\$64,627,000 and a gain on early repayment of convertible notes receivable of HK\$75,962,000. In addition, the Group reassessed the fair value in respect of the conversion options embedded in the convertible notes receivable as at the date of repayment with reference to the valuation performed by an independent firm of professional valuers and recognised a gain arising on change in fair value of HK\$1,525,000.

In October 2010, the Group sold 6,750,000 shares (the “Hantec Sale Shares”) in Hantec Holdings Investment Limited (“Hantec”) to Mr. Man Kong Yui at a consideration of HK\$21,600,000. Taking into account the fair value of the consideration paid and the call option granted, the Group recorded a gain on disposal of available-for-sale financial assets of HK\$7,579,000. Please refer to the sections headed “Material acquisition” and “Material disposals” below for more details.

During the year ended 31 December 2010, the Group recognised a gain arising on change in fair value of financial assets at fair value through profit or loss of HK\$4,918,000, representing a gain of HK\$3,150,000 arising from revaluating the Group’s stocks portfolio at market prices and a gain of HK\$1,768,000 arising from the bonus issue of warrants by China Star.

To reduce its finance costs, the Company early redeemed the convertible notes of HK\$72,000,000 payable to Well Will Investment Limited on 26 July 2010 and recognised a loss on early redemption of convertible notes payable of HK\$1,062,000.

Finance costs decreased from HK\$8,086,000 in the year ended 31 December 2009 to HK\$3,041,000 in the year ended 31 December 2010. It was mainly attributable to the decrease in imputed interest expense on convertible notes payable resulted from the early redemption of convertible notes of HK\$72,000,000 payable by the Company on 26 July 2010.

### ***Liquidity and financial resources***

During the year ended 31 December 2010, the Group mainly funded its operations through a combination of cash generated from operations, equity attributable to owners of the Company, convertible notes payable and issue of new shares. Equity attributable to owners of the Company decreased from HK\$1,371,044,000 at 31 December 2009 to HK\$1,344,663,000 at 31 December 2010.

At 31 December 2010, the cash and cash equivalents of the Group amounted to HK\$989,625,000 (31 December 2009: HK\$275,802,000). This increase was mainly attributable to the repayment of loan of HK\$155,536,000 by 上海昇平文化發展有限公司 (“Shanghai Shengping”), a subsidiary of China Star Film, the early repayment of convertible notes receivable of HK\$100,000,000 and promissory note receivable of HK\$100,000,000 by China Star Film and the fund raising activities conducted by the Company raising net proceeds of HK\$350,230,000.

At 31 December 2010, the Group had no borrowings.

At 31 December 2010, the Group’s net current assets and current ratio were HK\$994,811,000 (31 December 2009: HK\$450,386,000) and 80.09 (31 December 2009: 40.48), respectively.

### *Capital structure*

During the year ended 31 December 2010, the capital structure of the Company had the following changes:

- (a) on 16 April 2010, the Company issued 26,420,000 new shares credited as fully paid to Mr. Man Kong Yui for settling the consideration of HK\$18,000,000 for acquiring the Hantec Sale Shares;
- (b) on 29 April 2010, the Company issued 5,680,000 new shares at a price of HK\$0.64 per share and 5,830,000 new shares at a price of HK\$0.60 per share pursuant to the exercise of share options granted to the directors and the Group’s employees and consultants;
- (c) on 5 May 2010, the Company issued 990,000 new shares at a price of HK\$0.60 per share and 1,600,000 new shares at a price of HK\$0.64 per share pursuant to the exercise of share options granted to the Group’s employees and consultants;
- (d) on 10 June 2010, the Company issued 960,000 new shares at a price of HK\$0.66 per share pursuant to the exercise of share options granted to an employee of the Group;
- (e) on 23 July 2010, the Company issued 45,920,000 new shares at a price of HK\$0.55 per share by way of placing of new shares under general mandate raising HK\$24,900,000 (net of expenses) for general working capital of the Group; and

- (f) on 29 September 2010, the Company issued 826,584,147 rights shares at a subscription price of HK\$0.40 per share by way of rights issue to qualifying shareholders on the basis of three rights shares for every one existing share held on 3 September 2010 raising HK\$325,330,000 (net of expenses) for funding the loan facility to be granted to a joint venture company.

### ***Material acquisition***

On 16 April 2010, the Group acquired the Hantec Sale Shares from Mr. Man Kong Yiu at a consideration of HK\$18,000,000, which was settled by the Company in issuing 26,420,000 new shares credited as fully paid to Mr. Man. The fair value of the new shares issued was HK\$14,003,000.

### ***Material disposals***

During the year ended 31 December 2010, the Group had the following material disposals:

- (a) Following the resignation of Mr. Heung Wah Keung, a then executive director of the Company, as a director of China Star Film on 21 January 2010, the Group ceased to have significant influence over China Star Film. Accordingly, the Group accounted for its investment in China Star Film as financial assets at fair value through profit or loss, instead of an associate, and recognised a loss on losing significant influence of an associate of HK\$21,028,000.
- (b) On 13 January 2010, China Star issued 52,790,000 new shares upon the exercise of shares options granted to its employees, which caused a dilution on the Group's interest in China Star from 29.61% to 28.94%. The Group was deemed to dispose of 0.67% shareholding interest in China Star and recognised a loss on deemed disposal of an associate of HK\$10,790,000.
- (c) On 11 February 2010, China Star issued 540,000,000 new shares pursuant to a private placement causing a dilution on the Group's interest in China Star from 28.94% to 23.54%. The Group was deemed to dispose of 5.40% shareholding interest in China Star and recognised a loss on deemed disposal of an associate of HK\$95,343,000.



- (d) On 11 August 2010, China Star issued 1,444,643,184 new shares pursuant to the rights issue proposed on 8 July 2010. As the Group did not take up its entitlement under the rights issue, the Group's interest in China Star was diluted from 23.54% to 15.69% and ceased to have significant influence over China Star. The Group has accounted for its investment in China Star as available-for-sale financial assets, instead of an associate, and recognised a loss on deemed disposal of an associate of HK\$431,482,000 and a loss arising on change in fair value of available-for-sale financial assets of HK\$14,280,000.
- (e) On 27 October 2010, Mr. Man Kong Yui exercised the call option, which was granted to him by the Group under the conditional sale and purchase agreement dated 31 March 2010, to require the Group to sell the Hantec Sale Shares to him at a consideration of HK\$21,600,000. The disposal of the Hantec Sale Shares was completed on 28 October 2010 and the Group recognised a gain on disposal of available-for-sale financial assets of HK\$7,579,000.

### ***Loan to Shanghai Shengping***

In May 2010, Shanghai Shengping fully repaid the loan of HK\$155,536,000.

The loan was secured by a corporate guarantee given by China Star Film, interest-free and had no fixed terms of repayment.

### ***Pledge of assets***

At 31 December 2010, no assets of the Group were pledged.

### ***Commitments***

At 31 December 2010, the Group had no material commitments.

### ***Exchange risk and hedging***

During the year ended 31 December 2010, the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by the Group.

***Contingent liabilities***

At 31 December 2010, the Group had no material contingent liabilities.

***Employees and remuneration policy***

At 31 December 2010, the headcount of the Group was 10 (2009: 21). Staff costs (including directors' remuneration) amounted to HK\$3,463,000 (2009: HK\$8,903,000 for continuing operations; HK\$942,000 for discontinued operations). In addition to basic salaries, provident fund and discretionary bonus, staff benefits include medical scheme and share options.

**Operations Review**

During the year ended 31 December 2010, no revenue was generated from the Group's film distribution business as the Group was not able to secure quality films at reasonable prices for distribution.

Due to Europe's sovereign debt and bank anxiety, equity markets were volatile in the second quarter of 2010, the Group has started to rebuild its stocks portfolio by investing in equities of Hong Kong small and medium capitalisation companies. Following the cessation of significant influence over China Star Film, the Group disposed of its entire investment in China Star Film on market in May 2010. As the Group did not take up any of its entitlement under the rights issue proposed by China Star, the Group sold the nil-paid rights shares in China Star on market in July 2010. The Group reported a profit of HK\$4,590,000 for its sale of financial assets business in the year ended 31 December 2010.

During the year ended 31 December 2010, the Group's provision of management services business generated services fee income amounted to HK\$73,610,000, a 21.69% increase as compared to the previous year. The increase was mainly due to a strong growth in Macau VIP gaming revenue in 2010. The directors believe that the strong growth in Macau VIP gaming revenue was a direct result of the Mainland China's economic growth coupled with a lending boom.

On 16 April 2010, the Group acquired the Hantec Sale Shares at a consideration of HK\$18,000,000 from Mr. Man Kong Yui and granted the call option to Mr. Man to acquire the Hantec Sale Shares from the Group for a consideration of HK\$21,600,000 within one year from the date of completion. Pursuant to the conditional sale and purchase agreement dated 31 March 2010, Mr. Man had given a dividend guarantee

for not less than HK\$1,800,000 per annum for the period from 16 April 2010, being the date of completion of the acquisition, to 30 June 2012. On 17 May 2010, Hantec notified the Group that the registration of the transfer of the Hantec Sale Shares had been declined pursuant to the articles of association of Hantec. On 20 May 2010, a trust deed was executed by Mr. Man as trustee in favour of the Group as beneficiary, pursuant to which Mr. Man had agreed to act as nominee for the Group in respect of the Hantec Sale Shares and to hold the Hantec Sale Shares on trust for the Group. On the same date, Mr. Man gave an undertaking in favour of the Group that he should procure the registration of transfer of the Hantec Sale Shares within six months from the date of the undertaking and, if he failed to procure the registration within the prescribed time, exercise the call option to acquire the Hantec Sale Shares from the Group at HK\$21,600,000. As Mr. Man failed to procure the registration of transfer of the Hantec Sale Shares within the prescribed time, Mr. Man exercised the call option to acquire the Hantec Sale Shares from the Group at HK\$21,600,000 on 27 October 2010. Taking into account the fair value of the consideration paid and the call option granted, the Group recognised a gain on disposal of the Hantec Sale Shares of HK\$7,579,000. The Group also recognised a dividend income of HK\$962,000 from the Hantec Sale Shares.

On 24 June 2010, the Group entered into a joint venture agreement with Yiu Hing International Limited (“Yiu Hing”) relating to the formation of a joint venture company engaged in growing and sale of organic vegetables in Mainland China. Pursuant to the joint venture agreement, the joint venture company is owned as to 50% by the Group and as to 50% by Yiu Hing and each of the Group and Yiu Hing shall contribute HK\$30,000,000 in cash as capital. As the joint venture company was not able to obtain the land use rights for growing organic vegetables within 60 days from the date of the joint venture agreement, the Company announced on 24 August 2010 that the joint venture agreement was ceased and determined. The capital of HK\$30,000,000 contributed made by the Group was returned to the Group and Yiu Hing paid a compensation of HK\$1,500,000 to the Group on that date.

With a view to expand into real estate business in Vietnam, the Group entered into a joint venture agreement with Campbell Shillinglaw & Partners (Vietnam) Limited (“Campbell”) and Victory Peace Holdings Limited on 21 July 2010, pursuant to which the Group and Campbell have conditionally agreed to setting up a joint venture company, namely Victory Peace Holdings Limited, to engage in the business of conducting, development and investing into real estate and related projects in Vietnam. The joint venture company is held as to 90.1% by the Group and 9.9% by Campbell. On the same date, the Company and the joint venture company entered into the facility agreement, pursuant to which the Company has conditionally agreed

to grant a revolving credit facility of HK\$700,000,000 to the joint venture company to proceed with its business of conducting, development and investing into real estate and related projects in Vietnam. The formation of the joint venture company and the granting of revolving credit facility to the joint venture company were approved by the shareholders on 3 September 2010. As Campbell failed to obtain the relevant approvals and consents from the Vietnam Government in relation to its acquiring a 9.9% equity interest in the joint venture company on or before 31 December 2010, being the long stop date of the joint venture agreement, the joint venture agreement has lapsed with effect from 31 December 2010.

### **Future Prospects**

The directors believe that the key risks of 2011 are slower-than-expected US GDP growth, intensified European sovereign debt crises, supply disruption from the Tohoku Earthquake and other troubles in the Western economies and they may disrupt equities markets over the course of 2011. The directors continue to see market weakness as an opportunity to the Group for building its portfolio for sustainable growth. The Group continues to adopt a prudence approach in investing equities to enhance the returns to its shareholders.

Despite the fact that the Macau VIP gaming revenue had a 70% growth in 2010, the directors believe that the grow in gaming revenue will be smoother in 2011 as Mainland China has already launched tightening measures to combat inflation. The directors expect that the overall performance of the Group's provision of management services business will report a mild growth in 2011.

Although the setting up of the joint venture company engaging in the business of conducting, development and investing into real estate and related projects in Vietnam was lapsed, the Group's business strategy in expanding into property investment and development business remains unchanged and the directors are actively seeking suitable property projects for the Group. The directors are also active in identifying potential investment targets and expanding new business activities for distributing constant real returns to the Company's shareholders.

### **Events after the Reporting Period**

On 21 January 2011, the Company and China Star entered into a subscription agreement pursuant to which China Star has conditionally agreed to issue and the Company has conditionally agreed to subscribe or procure subscription for the convertible bonds in the maximum principal amount of HK\$650,000,000 in two

tranches at their face value. The convertible bonds are unsecured, interest bearing at 8% per annum and maturing on the fifth anniversary of the date of their issue. The convertible bonds carry rights entitling the Company to convert their principal amount into shares in China Star at an initial conversion price of HK\$0.08 per share (subject to adjustment). The subscription of the convertible bonds constitutes a major transaction and the conversion of the convertible bonds constitutes a very substantial acquisition for the Company under the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Accordingly, the subscription and the conversion of the convertible bonds are subject to the notification, publication and shareholders’ approval requirements. Please refer to the Company’s announcement dated 9 February 2011 for details.

## (II) For the year ended 31 December 2009

### **Financial Review**

During the year, the Group disposed of its entire interest in the issued share capital of Shinhan-Golden Faith International Development Limited (“Shinhan-Golden”) and World East Investments Limited (“World East”) together with the loans due by each of them to the Group. The major assets of Shinhan-Golden and World East are their interests in the registered capital of 北京莎瑪房地產開發有限公司 (“Beijing Suoma”). The principal activity of Beijing Suoma is property investment. Accordingly, the results of Shinhan-Golden and World East and their subsidiaries, namely Beijing Suoma, 上海昇平文化發展有限公司 (“Shanghai Shengping”) and Beijing Jianguo Real Estate Development Co., Limited (collectively the “Disposal Group”) are presented separately as discontinued operations.

Profit for the year ended 31 December 2009 from continuing and discontinued operations was HK\$416,562,000, whereas the Group recorded a loss of HK\$224,508,000 for the previous year.

### ***Results of continuing operations***

During the year ended 31 December 2009, the Group recorded a revenue of HK\$74,711,000, a 288% increase from HK\$19,253,000 for the previous year. The significant increase in revenue was attributable to the full year effect of the Group’s expansion into provision of management services business in August 2008 and the turnaround in the performance of sales of financial assets. Of the total turnover amount, HK\$60,491,000 or 81% was generated from provision of management

services and HK\$14,220,000 or 19% was generated from sales of financial assets. Profit for the year ended 31 December 2009 from continuing operations was HK\$422,138,000, whereas the Group recorded a loss of HK\$96,736,000 for the previous year. The turnaround was mainly attributed to a gain on excess of acquirer's interest in fair value of associates' identifiable net assets over cost of acquisition of HK\$702,500,000 and a gain on adjustment to cost of combination in respect of an acquisition in prior year of HK\$103,434,000, which were partly offset by impairment loss on intangible assets of HK\$117,320,000 and losses on disposal of subsidiaries and associates of HK\$328,888,000.

Cost of sales for the year ended 31 December 2009 amounted to HK\$1,362,000, which was wholly related to provision of management services. Based on the turnover of HK\$60,491,000, the gross profit margin for provision of management services was 97.75%.

As there was a V-shaped recovery in Hong Kong equity market in 2009, the Group increased its sales of financial assets activities and posted a gain on sales of financial assets of HK\$14,220,000 during the year.

Other revenue and other income increased by 391% from HK\$2,427,000 in the year ended 31 December 2008 to HK\$11,905,000 in the year ended 31 December 2009. The significant increase was due to interest income of HK\$5,102,000 arising from loan advanced to and convertible note receivable from China Star and imputed interest income of HK\$5,901,000 arising from promissory note receivable.

Administrative expenses (before depreciation, impairment loss recognised in respect of trade receivables and loss on disposal of property, plant and equipment) amounted to HK\$16,634,000 for the year ended 31 December 2009, a 35% decrease from HK\$25,768,000 for the previous year. The decrease was mainly attributable to the payment of consultancy fee of HK\$1,650,000 and tax surcharge of HK\$3,637,000 in the year ended 31 December 2008, whereas no such expenses in the year ended 31 December 2009. In addition, the Group recorded a decrease in legal and professional fees of HK\$3,150,000 in the year ended 31 December 2009 due to the increased corporate activities in the previous year.

During the year, the directors reassessed the recoverable amounts of management services agreements held by Rich Daily Group Limited (“Rich Daily”) with reference to the valuations performed by an independent firm of professional valuers. In light of the non-achievement of the service fee income guarantee for the 12-month ended 30 June 2009, an impairment loss on intangible assets of HK\$117,320,000 was recognised.

As the closing price per share in China Star Film Group Limited (formerly known as Golife Concepts Holdings Limited (“CSFGL”)) (stock code: 8172) dropped to HK\$0.315 on 31 December 2009, the Group recognised a loss on fair value change in conversion options embedded in convertible note receivable from CSFGL of HK\$64,542,000.

Pursuant to the sale and purchase agreement dated 28 February 2008 relating to the acquisition of Rich Daily, Mr. Ng Cheuk Fai has irrevocably and unconditionally guaranteed to the Group that the service fee income of Rich Daily for the 12-month ended 30 June 2009 shall not be less than HK\$72,000,000. However, the actual service fee income of Rich Daily for the 12-month ended 30 June 2009 was HK\$57,224,000. According to the sale and purchase agreement, the consideration for acquiring Rich Daily has to be adjusted from HK\$504,000,000 to HK\$400,566,000. The adjustment to the consideration of HK\$103,434,000 was settled by deducting HK\$72,000,000 from a convertible note payable to Well Will Investment Limited on a dollar for dollar basis and cash payment of HK\$31,434,000 from Mr. Ng Cheuk Fai. As a result, the Group recorded a gain on adjustment to cost of combination in respect of an acquisition in prior year of HK\$103,434,000 and a loss on cancellation of convertible note payable of HK\$18,247,000.

Finance costs increased by 141% from HK\$3,350,000 in the year ended 31 December 2008 to HK\$8,086,000 in the year ended 31 December 2009. The increase was mainly due to the full year effect of the imputed interest expense on convertible notes payable to Well Will Investment Limited as the convertible notes were issued in August 2008.

The Group recorded a tax credit of HK\$14,493,000 which represented deferred tax credits of HK\$14,078,000 on release of impairment loss on intangible assets and HK\$415,000 on imputed interest expense on convertible notes payable.

***Results of discontinued operations***

Loss from property investment improved by 96% from HK\$127,772,000 in the year ended 31 December 2008 to HK\$5,576,000 in the year ended 31 December 2009. This improvement was mainly attributable to the recognition of a loss on fair value change in investment properties of HK\$74,045,000 and an impairment loss on goodwill of HK\$40,382,000 in the year ended 31 December 2008, whereas the Group recorded a gain on fair value change in investment properties of HK\$2,002,000 and no impairment loss on goodwill in the year ended 31 December 2009.

***Liquidity and financial resources***

During the year ended 31 December 2009, the Group mainly funded its operations through a combination of cash generated from operations, equity attributable to the Company's owners, bank borrowings, convertible notes payable and issuance of new shares. Equity attributable to the Company's owners at 31 December 2009 amounted to HK\$1,371,044,000 (2008: HK\$894,423,000).

At 31 December 2009, the cash and cash equivalents of the Group amounted to HK\$275,802,000 (2008: HK\$7,218,000). The significant increase in cash and cash equivalents was mainly attributable to the repayment of HK\$220,000,000 to the Group by Shanghai Shengping and the funds raised from issuance of new shares.

At 31 December 2009, the total borrowings of the Group amounted to HK\$54,563,000 (2008: HK\$106,403,000), representing the liability component of the convertible note of HK\$72,000,000 which is unsecured, interest bearing at 5% per annum and maturing on 28 August 2018. The decrease in total borrowings was mainly attributable to the cancellation of a convertible note of HK\$72,000,000 in settling the adjustment to the consideration for acquiring Rich Daily. The gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's owners was 4% (2008: 12%).

***Net current assets and current ratio***

At 31 December 2009, the Group's net current assets and current ratio were HK\$450,386,000 (2008: HK\$602,720,000) and 40.5 (2008: 2.3), respectively.



*Capital structure*

On 9 January 2009, 39,000,000 new shares of HK\$0.01 each were issued at a price of HK\$0.102 per share by way of top-up subscription of new shares under general mandate raising HK\$3,820,000 (net of expenses) for reducing the Group's bank borrowings.

On 11 February 2009, 200,000,000 new shares of HK\$0.01 each were issued at a price of HK\$0.102 per share by way of placing of new shares under specific mandate raising HK\$19,870,000 (net of expenses) for reducing the Group's bank borrowings.

On 20 February 2009, the directors proposed the following changes to the capital of the Company in order to reduce the overall transaction and handling costs for dealing in the Company's shares:

- (a) share consolidation — that every ten issued existing shares of HK\$0.01 each be consolidated into one issued consolidated share of HK\$0.10; and
- (b) capital reduction — that (i) the total number of consolidated shares of HK\$0.10 each in the issued share capital of the Company following the share consolidation be rounded down to a whole number by cancelling the fractional share arising from the share consolidation; (ii) the nominal value of each of the issued consolidated shares of HK\$0.10 be reduced to HK\$0.01 by cancelling the paid-up capital to the extent of HK\$0.09 on each issued consolidated share; and (iii) the amount of credit arising from capital reduction be credited to the contributed surplus account of the Company.

The capital reorganisation was approved by the shareholders on 22 April 2009 and became effective on 23 April 2009.

On 2 March 2009, 300,000,000 new shares of HK\$0.01 each were issued at a price of HK\$0.091 per share by way of placing of new shares under specific mandate raising HK\$26,850,000 (net of expenses) for reducing the Group's bank borrowings.

On 30 March 2009, 367,093,498 new shares of HK\$0.01 each were issued at a subscription price of HK\$0.10 per share by way of open offer to the qualifying shareholders of the Company on the basis of one new share for every two existing shares held on 6 March 2009 raising HK\$34,339,000 (net of expenses) for financing possible diversified investments and general working capital of the Group.

On 10 September 2009, 22,000,000 new shares of HK\$0.01 each were issued at a price of HK\$0.42 per share by way of top-up subscription of new shares under general mandate raising HK\$9,030,000 (net of expenses) for general working capital of the Group.

On 29 December 2009, 56,000,000 new shares of HK\$0.01 each were issued to Thought Diamond International Limited at a price of HK\$0.50 per share raising HK\$27,700,000 (net of expenses) for possible diversified investments of the Group.

***Disposal of subsidiaries and acquisition of associated companies***

On 8 April 2009, the Group sold its interests in the entire issued share capital of Shinhan-Golden and World East together with the loans due by each of them to the Group to Mega Shell Services Limited (“Mega Shell”), a wholly-owned subsidiary of CSFGL, at a consideration of HK\$212,732,000. The consideration was settled in the following manner (a) the cash payment of HK\$6,847,000, (b) the issue of 11,769,194 new shares in CSFGL credited as fully paid at an issue price of HK\$0.50 per share, (c) the issue of a promissory note of HK\$100,000,000 by CSFGL and (d) the issue of a convertible note of HK\$100,000,000 by CSFGL with an initial conversion price of HK\$0.50 per conversion share (subject to adjustment). A loss on disposal of subsidiaries of HK\$48,868,000 and a gain on excess of acquirer’s interest in fair value of associates’ identifiable net assets over cost of investment of HK\$16,286,000 were recognised. The disposal together with the related transactions were approved by the shareholders on 12 February 2009.

On completion of the disposal of Shinhan-Golden and World East, the Group was interested in 20.36% of the issued share capital of CSFGL.

On 23 April 2009, the Group signed an undertaking to subscribe for 94,153,552 new shares in CSFGL at a subscription price of HK\$0.10 per share to which the Group was entitled to under the open offer to the qualifying shareholders of CSFGL on the basis of eight new shares for every one existing share as announced by CSFGL on the same date. The subscription price for the new shares in CSFGL amounted to HK\$9,415,000. The reasons for the Group for entering into the undertaking are to maintain its substantial level of shareholding interest in CSFGL and to facilitate the open offer for raising additional capital to strengthen CSFGL’s capital base. The open offer was completed on 2 July 2009.

During the year ended 31 December 2009, CSFGL issued new shares pursuant to a private placement and upon exercise of share options causing a dilution on the Group's interest in CSFGL to 15.66% at the year end. Accordingly, the Group recognised a loss on deemed disposal of an associate of HK\$6,629,000. Despite the Group's interest in CSFGL stood at 15.66%, it was accounted for investment in associate as the Group has retained its significant influence over CSFGL by having a representation on the board of directors of CSFGL.

During the year ended 31 December 2009, CSFGL recorded a profit attributable to its owners of HK\$26,099,000 and contributed a profit of HK\$6,372,000 to the Group.

On 29 April 2009, the Company made a loan of HK\$200,000,000 to China Star pursuant to the conditional loan agreement dated 11 March 2009. The loan was unsecured, interest bearing at prime rate as quoted by The Hong Kong and Shanghai Banking Corporation Limited per annum and maturing on 28 April 2012. The loan made to China Star was approved by the shareholders, other than Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and their associates, on 22 April 2009.

On 21 September 2009, the Group subscribed the convertible note of HK\$200,000,000 from China Star pursuant to the conditional subscription agreement dated 23 July 2009. The subscription price of the convertible note was satisfied by setting off the loan of HK\$200,000,000 made by the Company to China Star on 29 April 2009. The convertible note was unsecured, interest bearing at prime rate as quoted by The Hong Kong and Shanghai Banking Corporation Limited per annum and maturing on 20 September 2012. The convertible note entitled the Group to convert the outstanding principal amount into shares in China Star at an initial conversion price of HK\$0.20 per share (subject to adjustment). The subscription of the convertible note was approved by the shareholders, other than Mr. Heung Wah Keung, Ms. Chen Ming Yin, Tiffany and their associates, on 14 September 2009.

During the second half of 2009, the Group converted the convertible note of HK\$200,000,000 entirely into 1,000,000,000 shares in China Star at a conversion price of HK\$0.20 per share. As a result, the Group recorded a gain on fair value change in convertible note of HK\$55,244,000, which represented the difference between the fair value of the convertible note of HK\$255,244,000 and their carrying amount of HK\$200,000,000 and a gain on excess of acquirer's interest in fair value of associates' identifiable net assets over cost of investment of HK\$686,214,000. On 10 December 2009, the Group disposed of 320,000,000 shares in China Star to independent third parties at a price of HK\$0.20 per share and recorded a loss on partial disposal of an associate of HK\$280,020,000.

During the year ended 31 December 2009, China Star made a profit attributable to its owners of HK\$204,388,000 and contributed a profit of HK\$16,116,000 to the Group.

### ***Loan to Shanghai Shengping***

As at the date of completion of the disposal of Shinhan-Golden and World East, Shanghai Shengping (a subsidiary of World East) was indebted to the Group in the sum of HK\$375,536,000. Pursuant to the sale and purchase agreement, the loan made to Shanghai Shengping by the Group was not settled immediately upon completion and CSFGL has provided a guarantee to the Group for a term of maximum of three financial years ending 31 December 2011 to secure the repayment. If any part of the loan has not been settled on the day falling on the fifth anniversary of the date of completion, CSFGL will issue a convertible note to settle the outstanding balance of the loan.

During the year ended 31 December 2009, Shanghai Shengping repaid HK\$220,000,000 to the Group. At 31 December 2009, the outstanding balance of the loan was HK\$155,536,000.

The loan is secured by a corporate guarantee given by CSFGL, interest-free and has no fixed terms of repayment.

### ***Pledge of assets***

At 31 December 2009, no assets of the Group were pledged.

### ***Commitments***

At 31 December 2009, the Group had no material commitments.

### ***Exchange risk and hedging***

During the year ended 31 December 2009, the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi. Accordingly, no financial instruments for hedging purposes have been used by the Group.

### *Contingent liabilities*

At 31 December 2009, the Group had no material contingent liabilities.

### *Employees and remuneration policy*

At 31 December 2009, headcount of the Group was 21 (2008: 22 for continuing operations; 96 for discontinued operations). Staff costs (including directors' remuneration) for continuing operations and discontinued operations amounted to HK\$8,903,000 (2008: HK\$9,574,000) and HK\$942,000 (2008: HK\$4,615,000) in the year ended 31 December 2009, respectively. In addition to basic salaries, provident fund and discretionary bonus, staff benefits include medical scheme and share options.

## **Operations Review**

### *Continuing operations*

During the year ended 31 December 2009, no revenue was generated from the Group's film distribution business as the Group was not able to secure a sufficient quantity of films at reasonable prices for distribution. As the cost of maintaining a distribution network is high, the Group has further scaled down its film distribution operations in the second half of 2009 in order to improve its cost structure.

Following a range of quantitative easing measures carried out by central banks, the market sentiment improved and global equities rallied. During the year ended 31 December 2009, the Group reactivated its sale of financial assets business. As Hong Kong stock market rallied sharply in the third quarter of 2009, the Group took profit on its Hong Kong equities by selling all of them in September 2009 and recorded a gain on sales of financial assets of HK\$14,220,000.

During the year ended 31 December 2009, Rich Daily generated services fee income amounted to HK\$60,491,000. Rich Daily is a management services provider to the concierge departments of gaming promoters. The monthly service fee earned by Rich Daily is calculated at 0.03% of the monthly rolling turnover generated by the gaming promoters. Following the outbreak of global financial crisis, Rich Daily recorded a drop in its services fee income from September 2008 to February 2009. With Beijing's efforts to reflate the Chinese economy, the Group has seen a gradual improvement on the monthly service fee income since March 2009. The directors believe that Rich Daily strengthens the Group's profitability and cash inflow.

Best Season Holdings Corp. (“Best Season”), a 75% owned subsidiary of the Company, has been established to invest in, manage and conduct branding for real estate and/or related properties in Macau. Due to the downturn in Macau’s property market in the second half of 2008 and the concentration on the Group’s resources on newly expanded business, the business development of Best Season has temporarily been suspended. As a result, no contribution was made from Best Season for the year ended 31 December 2009.

### ***Discontinued operations***

During the period from 1 January 2009 to 8 April 2009, the Disposal Group generated an average monthly rental income of HK\$1,045,000 and achieved an average monthly occupancy of 18%. The unsatisfactory occupancy was a direct result of weak leasing demand in the first half of 2009. The weakened demand for serviced apartments in Beijing primarily resulted from the negative impact of the global financial crisis which caused a cut in the number of expatriates staff stationed in Beijing by multinational companies.

### **Future Prospects**

Given the Hong Kong stock market performed so well in 2009, there may be a consolidation in the second and third quarters of 2010. The directors believe that any consolidation in Hong Kong equities presents an opportunity to the Group for building a stocks portfolio for sustainable growth. The Group will continue to adopt a prudence approach in investing Hong Kong equities to enhance the returns to its shareholders.

With Macau’s gaming revenue surged to its highest-ever quarterly figure in the fourth quarter of 2009, the directors believe that the provision of management services business will continue to contribute positively to the Group in coming years.

Although the global economy shown a sign of improvement in 2009, the directors believe that 2010 remains challenging. However, the directors consider that such kind of economics climate provides opportunities to the Group to invest with reasonable prices. The Group will actively seek investment opportunities to diversify its businesses and broaden its revenue base.

**(III) For the year ended 31 December 2008****Financial Review**

On 26 November 2008, the Group entered into a conditional sale and purchase agreement relating to the sale of the entire issued share capital of Shinhan-Golden Faith International Development Limited (“Shinhan-Golden”) and World East Investments Limited (“World East”) to Mega Shell Services Limited (“Mega Shell”), a wholly-owned subsidiary of Golife Concepts Holdings Limited (“Golife”), at a consideration of HK\$211,466,310 (subject to adjustment). The major assets of Shinhan-Golden and World East are their interests in the registered capital of 北京莎瑪房地產開發有限公司 (“Beijing Shama”). The principal activity of Beijing Shama is property investment. As a result, the assets and liabilities of Shinhan-Golden and World East and their subsidiaries, namely Beijing Shama, Beijing Jianguo Real Estate Development Co., Limited and 上海昇平文化發展有限公司 (“Shanghai Shengping”) (collectively the “Disposal Group”), are re-classified as assets and liabilities of disposal group classified as held for sale in the consolidated balance sheet at 31 December 2008. The results of the Disposal Group are presented separately as discontinued operations in the consolidated income statement for the year ended 31 December 2008.

Loss from continuing and discontinued operations for the year ended 31 December 2008 amounted to HK\$224,508,000, whereas a profit of HK\$25,694,000 was recorded in 2007. The deterioration was mainly attributable to the increase in impairment loss recognised in respect of goodwill of HK\$104,519,000 in the current year and the recognition of the one-off gain of HK\$106,956,000 arising from bank loan interest waived in 2007.

**Results of continuing operations**

The turnover for continuing operations increased from HK\$7,722,000 in the year ended 31 December 2007 to HK\$19,253,000 in the year ended 31 December 2008. Of the total turnover, HK\$2,000,000 was generated from sub-licensing of film rights, HK\$18,215,000 was generated from provision of management services and a loss of HK\$962,000 was incurred by sales of financial assets. The loss from continuing operations deteriorated from HK\$44,749,000 in the year ended 31 December 2007 to HK\$96,736,000 in the year ended 31 December 2008. Such deterioration was mainly attributable to the recognition of impairment loss in respect of goodwill of HK\$101,965,000, which was partly offset by the increase in gross profit of HK\$11,038,000, the decrease in administrative expenses of HK\$28,931,000 and a tax credit of HK\$13,854,000.

Cost of sales for the year ended 31 December 2008 amounted to HK\$493,000, which was wholly related to provision of management services. The gross profit margin for provision of management services was 97%. The gross profit margin for sub-licensing of film rights was 100% as the cost of film library had been fully amortised and/or impaired in previous years.

Other revenue decreased from HK\$2,922,000 in the year ended 31 December 2007 to HK\$2,427,000 in the year ended 31 December 2008. The decrease was mainly attributed to the decrease in interest income on bank deposits resulted from the decrease in the average monthly balance of the Group's cash and cash equivalents as explained below.

At the end of financial year 2008, the directors reassessed the recoverable amount of the cash-generating unit allocated to the goodwill arising from the acquisition of Rich Daily Group Limited ("Rich Daily") with reference to the valuation performed by the independent professional valuers. In the light of the downturn in Macau's VIP gaming, the directors determined that the goodwill should be fully impaired and recognised an impairment loss of HK\$101,965,000 in the year ended 31 December 2008.

Administrative expenses (net of depreciation, impairment loss and loss on disposal of property, plant and equipment) amounted to HK\$25,768,000 for the year ended 31 December 2008, a 53% decrease from HK\$54,818,000 as compared to the correspondence figure for the previous year. The decrease was mainly attributable to the decreases in share-based payment expenses of HK\$28,674,000 and consultancy fee of HK\$2,541,000, which were partly offset by the surcharge of HK\$3,637,000 paid to Inland Revenue Department in relation to the compromise settlement on the Group's offshore income claim.

Finance costs for the year ended 31 December 2008 amounted to HK\$3,350,000, representing the imputed interest expense on the convertible notes in an aggregate principal amount of HK\$144,000,000 issued in August 2008 for the acquisition of Rich Daily.

During the year ended 31 December 2008, the Group reached a compromise settlement with Inland Revenue Department in settling a tax dispute over the offshore sub-licensing income claim for an amount of HK\$12,021,000, which included a surcharge of HK\$3,637,000. As a tax provision of HK\$22,238,000 had been made in previous years, a tax credit of HK\$13,854,000 was recognised.



**Results of discontinued operations**

The turnover generated from property investment for the year ended 31 December 2008 amounted to HK\$20,826,000, a 614% increase from HK\$2,917,000 for the previous year. The significant increase was attributable to the commencement of operations of Beijing Shama in late June 2008. The loss for property investment amounted to HK\$127,772,000 in the year ended 31 December 2008, whereas a profit of HK\$70,443,000 was recorded in 2007. The deterioration was attributable to the recognition of decrease in fair value of investment properties of HK\$74,045,000 and impairment loss in respect of goodwill of HK\$40,382,000 in 2008, whereas the one-off gain of HK\$106,956,000 arising from bank loan interest waived was recognised in 2007.

Cost of sales increased from HK\$858,000 in the year ended 31 December 2007 to HK\$7,176,000 in the year ended 31 December 2008. The gross profit margin for property investment dropped from 71% in the year ended 31 December 2007 to 66% in the year ended 31 December 2008. The drop in gross profit margin was due to the increase in overhead of Beijing Shama following its soft opening in late June 2008.

Other revenue increased from HK\$283,000 in the year ended 31 December 2007 to HK\$1,257,000 in the year ended 31 December 2008. The increase was mainly attributed to the increase in interest income on bank deposits resulted from the increase in the average monthly bank balances of Beijing Shama.

Other income for the year ended 31 December 2007 amounted to HK\$106,956,000 representing the one-off gain arising from bank loan interest waived by China Merchants Bank.

In the light of the downturn in the Mainland China's property market, the Group recognised a decrease in fair value of investment properties of HK\$74,045,000 in the year ended 31 December 2008 with reference to the valuation performed by the independent qualified professional valuers valuing the investment properties at HK\$906,960,000 at 31 December 2008.

At the end of financial year 2008, the directors reassessed the recoverable amount of the cash-generating unit allocated to the goodwill arising from the acquisition of Shinhan-Golden with reference to the valuation performed by the independent professional valuers. In the light of the downturn in the Mainland China's property market, the directors determined that the goodwill should be fully impaired and an impairment loss of HK\$40,382,000 was recognised in the year ended 31 December 2008.

Administrative expenses (net of depreciation) increased from HK\$11,635,000 in the year ended 31 December 2007 to HK\$20,835,000 in the year ended 31 December 2008. The increase was mainly attributable to the commencement of operations of Beijing Shama in the second half of 2008.

Finance costs for the year ended 31 December 2008 amounted to HK\$25,289,000, a 30% increase as compared to HK\$19,494,000 in the year ended 31 December 2007. The increase was attributable to the increase in the average monthly balances of the RMB bank loan for the payment of renovation costs in respect of the investment properties.

A tax credit of HK\$22,214,000 was arisen from the transfer of deferred tax to income statement in relation to the recognition of the decrease in fair value of investment properties in the year ended 31 December 2008.

### **Liquidity and financial resources**

During the year ended 31 December 2008, the Group mainly funded its operations through a combination of equity attributable to the Company's equity holders, bank borrowings and convertible notes. Equity attributable to the Company's equity holders at 31 December 2008 amounted to HK\$894,423,000 (2007: HK\$1,046,080,000).

At 31 December 2008, the cash and cash equivalents of the Group amounted to HK\$7,218,000 (2007: HK\$531,396,000). The decrease in cash and cash equivalents of the Group was mainly attributable to the cash payment of HK\$360,000,000 to Well Will Investment Limited ("Well Will") for the acquisition of Rich Daily and the cash and cash equivalents balances of HK\$82,152,000 were re-classified as assets of disposal group classified as held for sale in the consolidated balance sheet.

At 31 December 2008, the total borrowings of the Group amounted to HK\$106,403,000 (2007: HK\$329,719,000), comprising the advance of HK\$600,000 made by China Star which is unsecured, interest-free and has no fixed terms of repayment; and the liability component of the convertible notes with an aggregate principal amount of HK\$144,000,000 issued to Well Will of HK\$105,803,000 which are unsecured, interest bearing at 5% per annum and maturing on 28 August 2018. The gearing ratio calculated as a percentage of total borrowings over equity attributable to the Company's equity holders was 12% (2007: 32%). The improvement in gearing ratio was attributed to the re-classification of bank borrowings as liabilities of disposal group classified as held for sale in the consolidated balance sheet.

At 31 December 2008, the bank borrowings of Beijing Shama amounted to HK\$319,418,000 (2007: HK\$329,018,000), representing the RMB bank loan which is secured by certain of the investment properties with a fair value of HK\$853,835,000, the bank deposits of HK\$23,470,000 and a corporate guarantee given by the Company, interest bearing at 110% of the interest rate prescribed by the People's Bank of China for loan period of five years and repayable within three years.

#### **Net current assets and current ratio**

At 31 December 2008, the Group's net current assets and current ratio were HK\$602,720,000 (2007: HK\$491,885,000) and 2.30 (2007: 5.19) respectively.

#### **Capital structure**

To reduce the overall transaction and handling costs for dealing in the Company's shares and allow the Company to declare dividends to its shareholders at an earlier opportunity, the directors proposed the following changes to the capital of the Company (the "Capital Reorganisation") on 19 March 2008:

- (a) the consolidation of every ten issued and unissued existing shares of HK\$0.10 each in the share capital of the Company into one share of HK\$1.00;
- (b) immediately after completion of the share consolidation in (a) above, the reduction of the nominal value of all issued and issued shares of HK\$1.00 each in the share capital of the Company from HK\$1.00 each to HK\$0.01 each; and
- (c) the cancellation of the entire amount of HK\$813,058,000 standing to the credit of the share premium account of the Company at 31 December 2007 by transferring such credit amount to the contributed surplus account of the Company and the application of HK\$518,374,000 in the contributed surplus account to set off against the accumulated losses of the Company of HK\$518,374,000 at 31 December 2006.

The Capital Reorganisation was approved by the shareholders on 30 April 2008 and became effective on 2 May 2008.

In April 2008, the Company issued 10,009 new shares of HK\$0.10 each at an exercise price of HK\$0.1146 per share pursuant to the exercise of share options granted to an employee.

On 4 November 2008, the Company entered into a placing agreement with Kingston Securities Limited (“Kingston”). Pursuant to the placing agreement, the Company has conditionally agreed to place through Kingston, on a best effort basis, a maximum of 500,000,000 new shares of HK\$0.01 each by a maximum of five tranches to independent investors at a placing price, which must not be lower than 85% or more of the average closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in the last 30 consecutive trading days up to and including the date on which the placing price was fixed for such tranche and should not be less than HK\$0.05 per share. The placing agreement was approved by the shareholders on 19 December 2008. The first tranche of placing of 200,000,000 new shares at a placing price of HK\$0.102 per share was completed on 11 February 2009 and the second tranche of placing of 300,000,000 new shares at a placing price of HK\$0.091 per share was completed on 2 March 2009. The net proceeds from the placing of 500,000,000 new shares amounted to HK\$46,720,000.

On 29 December 2008, the Company, Classical Statue Limited (“CSL”), a substantial shareholder of the Company, and Kingston entered into a top-up placing agreement relating to the placing of 39,000,000 existing shares of HK\$0.01 each held by CSL to not fewer than six places at a placing price of HK\$0.102 per share and the top-up subscription of 39,000,000 new shares by CSL at a subscription price of HK\$0.102 per new share. The top-up placing was completed on 9 January 2009 and raised HK\$3,820,000 (net of expenses) to the Group.

### **Material acquisitions and disposals of subsidiaries and associated companies**

On 29 May 2008, the Group acquired the remaining 3.3% interest in the registered capital of Beijing Shama from Beijing Urban Development Group Co. Ltd. at a net consideration of RMB84,000 (or HK\$95,000), after deducting an amount of RMB4,150,000 (or HK\$4,705,000) paid to Beijing Urban Development Group Co. Ltd. by the ex-owner in 1997. The directors believe that the acquisition of the remaining 3.3% interest provides the Group with a better protection on its interest in Beijing Shama and a greater flexibility in managing Beijing Shama.

On 29 August 2008, the Group acquired the entire issued share capital of Rich Daily from Well Will at an initial consideration of HK\$504,000,000 (subject to adjustment). The initial consideration was settled by paying HK\$360,000,000 in cash and issuing of convertible notes in an aggregate principle amount of HK\$144,000,000, with an initial conversion price of HK\$1.60 per conversion share. Rich Daily is a management services provider to the concierge departments

of gaming promoters in Macau. The monthly service fee earned by Rich Daily is calculated at 0.03% of the monthly rolling turnover generated by the gaming promoters.

On 26 November 2008, the Group entered into a conditional sale and purchase agreement relating to the sale of the entire issued share capital of Shinhan-Golden and World East to Mega Shell at a consideration of HK\$211,466,310 (subject to adjustment). On 8 April 2009, the conditional sale and purchase agreement was completed. The adjusted consideration of HK\$212,731,827 was settled in the following manner (i) the cash payment of HK\$6,847,230, (ii) the issue of 11,769,194 new shares in Golife (adjusted for the capital reorganisation of Golife as completed on 6 April 2009) credited as fully paid at an issue price of HK\$0.50 per share, (iii) the issue of a promissory note of HK\$100,000,000 by Golife and (iv) the issue of a convertible bond of HK\$100,000,000 with an initial conversion price of HK\$0.50 per conversion share (subject to adjustment) by Golife. Upon completion of the sale and purchase agreement, the Group holds 20.36% interest in the issued share capital of Golife and Golife is treated as an associated company of the Group for financial reporting purposes. Golife is a company listed on the GEM Board of the Stock Exchange.

### **Charges on assets**

At 31 December 2008, certain of the investment properties with a fair value of HK\$853,835,000 and the bank deposits of HK\$23,470,000 have been pledged to a bank to secure the RMB bank loan granted to Beijing Shama.

### **Material commitments**

At 31 December 2008, the Group had the following material commitments:

- (a) capital expenditures of HK\$10,408,000 in respect of the renovation works of the investment properties contracted for but not provided in the consolidated financial statements;
- (b) a commitment in respect of acquiring the registered capital of Shanghai Shengping from its owners at a price determined by the valuers in Mainland China when the laws in Mainland China allow foreign investors to own more than 51% interest in the registered capital of Shanghai Shengping; and
- (c) an unused revolving facility of up to HK\$200,000,000 granted to Best Season Holdings Corp. (“Best Season”).

**Exchange risk and hedging**

As the majority of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars and Renminbi, the exchange risk of the Group is considered to be minimal. Accordingly, no financial instruments for hedging purposes have been used by the Group.

**Contingent liabilities**

At 31 December 2008, the Group had no material contingent liabilities (2007: nil).

**Employees and remuneration policy**

At 31 December 2008, the headcount of the Group was 118 (continuing operations: 22; discontinued operations: 96). Staff costs (including directors' remuneration) for continuing and discontinued operations amounted to HK\$9,574,000 and HK\$4,615,000 respectively in the year ended 31 December 2008. Employees are remunerated according to their performance and work experience. In addition to basic salaries, provident fund and discretionary bonus, staff benefits include medical scheme and share options.

**Operations Review*****Continuing operations***

During the year ended 31 December 2008, the Hong Kong films market remained sluggish and the demand for Hong Kong made-movies in Mainland China, one of the major markets for Hong Kong made-movies, remained weak. The number of films produced by local producers had decreased. As a result, the Group was not able to secure quality films at reasonable prices for distribution. However, the Group has concluded an agreement to sell its film library at HK\$2,000,000.

As volatility in equity market remained high in the first three quarters of 2008, the Group carried out a minimal trading in financial assets during the year. Following the outbreak of the global financial crisis, the Group sold all of its financial assets in order to reduce equity price risk.

The Group acquired the entire issued share of Rich Daily at an initial consideration of HK\$504,000,000 (subject to adjustment) on 29 August 2008. Rich Daily is a management services provider to the concierge departments of gaming promoters.

The monthly service fee earned by Rich Daily is calculated at 0.03% of the monthly rolling turnover generated by the gaming promoters. Following the completion of the acquisition, Rich Daily generates a constant monthly cashflow to the Group. Although Rich Daily experienced a drop in its services fee income in September 2008 resulted from the outbreak of global financial crisis, the monthly service fee income has remained fairly stable in the fourth quarter of 2008. The directors believe that the newly expanded management service business provides the Group with a stable source of revenue and improves the Group's profitability.

Best Season has been established to invest in, manage and conduct branding for real estate and/or related properties in Macau. Due to the downturn in Macau's property market in the second half of 2008 and the concentration on the Group's resources on newly expanded business, the business development of Best Season has temporarily been suspended. As a result, no contribution was made from Best Season in the year ended 31 December 2008.

On 23 December 2008, the Group terminated the proposed acquisition of the entire interest in the issued share capital of Exceptional Gain Profits Limited and a sale loan from China Star as the proposed acquisition had been hinged on the release of security given by China Star relating to Kingsway Hotel Limited to be replaced by security given by the Company. Both the Company and China Star had determined not to keep their shareholders and investors lingering on the status of the proposed acquisition or the proposed disposal, as the case may be, as it has been more than one year since the announcement of the proposed acquisition or the proposed disposal, as the case may be.

### ***Discontinued operations***

The soft opening of the Disposal Group's investment properties, namely Shama Luxe Chang An, commenced in late June 2008. During the year ended 31 December 2008, rental income of HK\$16,033,000 was generated from short-term leasing in the "Olympic Month — August 2008". The occupancy of Shama Luxe Chang An was 16% during the second half of 2008. The unsatisfactory occupancy was a direct result of weak leasing demand in the second half of 2008. The weakened demand for serviced apartment in Beijing primarily resulted from the negative impact of the global financial crisis which caused a cut in the number of expatriates staff stationed in Beijing by many multinational companies. Beijing Shama is working with the management company to formulate plans to improve the occupancy and the cost structure of Shama Luxe Chang An.

**Future Prospects**

Given the recent global financial crisis and the depressed state of global economy, the directors forecast a tough 2009 and a persist downturn in global economy for a long period of time. As such, the Directors believe the best strategies for the Group are to (i) restructure its business, (ii) enable the Group to concentrate its resources on provision of management services business, and (iii) improve the Group's gearing ratio. On the other hand, the Group is seeking investment opportunities with attractive prices to diversify its businesses and broaden its revenue base.



**FINANCIAL INFORMATION INCORPORATED BY REFERENCE**

The audited consolidated financial statements of the Group for the years ended 31 December 2008, 31 December 2009 and 31 December 2010, including the notes thereto, have been published in the annual reports of the Company for the years ended 31 December 2008 (pages 52 to 171), 31 December 2009 (pages 52 to 195) and 31 December 2010 (pages 50 to 187) respectively, which are incorporated by reference into this circular. The unaudited consolidated financial statements of the Group for the six months ended 30 June 2011, including the notes thereto, have also been published in the interim report of the Company for the six months ended 30 June 2011 (pages 3 to 25), which are also incorporated by reference into this circular. The said annual reports and interim report of the Company are available on the Company's website at [www.etsernityinv.com.hk](http://www.etsernityinv.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

**STATEMENT OF INDEBTEDNESS****Borrowings**

At the close of business on 31 August 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had no outstanding borrowings or material contingent liabilities.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptances credits, finance leases or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 August 2011.

**WORKING CAPITAL**

The Directors, after due and careful enquiry, are of the opinion that, in the absence of unforeseeable and after taking into account of the Acquisition, the proposed acquisition of the entire issued share capital of Adelio Holdings Limited at a cash consideration of HK\$267.60 million as announced by the Company on 2 June 2011, the net proceeds from the open offer as announced by the Company on 7 June 2011 and the internal resources of the Enlarged Group, the Enlarged Group has sufficient working capital for its normal business for at least the next 12 months from the date of publication of this circular.

**MATERIAL ADVERSE CHANGE**

Save for the Company's announcement dated 12 September 2011 relating to the termination of the Services Agreement by the Gaming Promoter and the potential financial impacts resulted from the termination of the Services Agreement as disclosed on pages 38 to 39 of this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest published audited consolidated accounts of the Group were made up, as at the Latest Practicable Date.

*The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*



Chartered Accountants  
Certified Public Accountants

31/F Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

17 October 2011

The Directors  
Eternity Investment Limited  
Unit 3811, 38/F., Shun Tak Centre, West Tower  
168-200 Connaught Road Central  
Hong Kong

Dear Sirs,

We report on the financial information (the “Financial Information”) of Citadines Ashley TST (Hong Kong) Limited (“Citadines TST”) set out in Sections A, B and C below, for inclusion in the circular of Eternity Investment Limited (the “Company”) dated 17 October 2011 (the “Circular”) in connection with the proposed acquisition of the entire issued share capital of Citadines TST by Golden Stone Management Limited, a wholly-owned subsidiary of the Company. The Financial Information comprises the statements of financial position of Citadines TST as at 31 December 2008, 2009 and 2010 and 30 June 2011, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory notes.

Citadines TST was incorporated in Hong Kong with limited liability on 1 March 2006 and its principal activity is property investment.

Citadines TST has adopted 31 December as its financial year end date and the statutory financial statements of Citadines TST for the years ended 31 December 2008, 2009 and 2010 were audited by KPMG in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND REPORTING ACCOUNTANTS**

The directors of Citadines TST are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with accounting policies set out in Note 4 to the Financial Information which confirm with the HKFRSs issued by the HKICPA. The directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

**BASIS OF OPINION**

For the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

**OPINION**

In our opinion, the Financial Information for the Relevant Periods, for the purpose of this report, gives a true and fair view of the state of affairs of Citadines TST as at 31 December 2008, 2009 and 2010 and 30 June 2011, and of the results and cash flows of Citadines TST for the Relevant Periods.

**MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING**

Without qualifying our opinion, we draw attention to Note 2 to the Financial Information which indicates that Citadines TST incurred a net loss of approximately HK\$33,169,000 during the year ended 31 December 2008, Citadines TST's total liabilities exceeded its total assets by approximately HK\$24,242,000, HK\$21,646,000 and HK\$1,139,000 as at 31 December 2008, 2009 and 2010 respectively and Citadines TST's current liabilities exceeded its current assets by approximately HK\$183,013,000 as at 30 June 2011. These conditions, along with other matters as set out in Note 2 to the Financial Information, indicate the existence of a material uncertainty which may cast significant doubt about Citadines TST's ability to continue as a going concern.

**COMPARATIVE FINANCIAL INFORMATION****Respective responsibilities of directors and reporting accountants**

The directors of Citadines TST are responsible for the preparation and presentation of the unaudited financial information of Citadines TST including the statement of comprehensive income, the statement of changes in equity and the statement of cash flow for the period from 1 January 2010 to 30 June 2010, together with the notes thereto (the “Unaudited Comparative Financial Information of Citadines TST”).

For the purpose of this Circular, we have reviewed the Unaudited Comparative Financial Information of Citadines TST, for which the directors of Citadines TST are responsible, in accordance with Hong Kong Standard on Review Engagements 2400 “Engagements to Review Financial Statements” issued by the HKICPA. A review consists principally of making enquiries of Citadines TST’s management and applying analytical procedures to the Unaudited Comparative Financial Information of Citadines TST and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information of Citadines TST.

**Conclusion**

On the basis of our review which does not constitute an audit, for the purpose of this Circular, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information of Citadines TST, for the purpose of the Circular, has not been prepared, in all material respects, in accordance with HKFRSs.

## A. FINANCIAL INFORMATION OF CITADINES TST

## Statements of comprehensive income

	Notes	Year ended 31 December			Six months ended	
		2008	2009	2010	30 June	
		HK\$'000	HK\$'000	HK\$'000	2010	2011
				HK\$'000	HK\$'000	
				(Unaudited)		
Turnover	7	5,326	5,835	6,183	3,090	3,065
Administrative expenses		(658)	(400)	(507)	(165)	(169)
Other operating expenses		(109)	(42)	(134)	(50)	(21)
(Loss)/gain arising on change in fair value of investment properties	13	<u>(44,199)</u>	<u>(2,287)</u>	<u>18,869</u>	<u>—</u>	<u>118,000</u>
(Loss)/profit before taxation	8	(39,640)	3,106	24,411	2,875	120,875
Income tax credit/(expense)	11	<u>6,471</u>	<u>(510)</u>	<u>(3,904)</u>	<u>(630)</u>	<u>(20,063)</u>
<b>(Loss)/profit for the year/ period</b>		<b><u>(33,169)</u></b>	<b><u>2,596</u></b>	<b><u>20,507</u></b>	<b><u>2,245</u></b>	<b><u>100,812</u></b>
<b>(Loss)/profit for the year/ period attributable to owners of Citadines TST</b>		<b><u>(33,169)</u></b>	<b><u>2,596</u></b>	<b><u>20,507</u></b>	<b><u>2,245</u></b>	<b><u>100,812</u></b>
<b>Total comprehensive (loss)/ income for the year/period</b>		<b><u>(33,169)</u></b>	<b><u>2,596</u></b>	<b><u>20,507</u></b>	<b><u>2,245</u></b>	<b><u>100,812</u></b>
<b>Total comprehensive (loss)/ income for the year/ period attributable to owners of Citadines TST</b>		<b><u>(33,169)</u></b>	<b><u>2,596</u></b>	<b><u>20,507</u></b>	<b><u>2,245</u></b>	<b><u>100,812</u></b>

The accompanying notes form an integral part of the Financial Information of Citadines TST.

## Statements of financial position

		At 31 December			At
		2008	2009	2010	30 June
	Notes	HK\$'000	HK\$'000	HK\$'000	2011
					HK\$'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Investment properties	13	165,000	163,000	182,000	300,000
Property, plant and equipment	14	618	591	554	477
Deferred tax assets	20	5,517	5,464	1,878	—
		<u>171,135</u>	<u>169,055</u>	<u>184,432</u>	<u>300,477</u>
<b>Current assets</b>					
Trade receivables	15	94	156	250	76
Prepayments and other receivables	16	193	46	46	66
Amounts due from fellow subsidiaries	17	4,585	8,972	4,767	3,763
Cash and cash equivalents		147	207	729	1,743
		<u>5,019</u>	<u>9,381</u>	<u>5,792</u>	<u>5,648</u>
<b>Total assets</b>		<u><u>176,154</u></u>	<u><u>178,436</u></u>	<u><u>190,224</u></u>	<u><u>306,125</u></u>
<b>EQUITY</b>					
<b>Capital and reserves attributable to owners of Citadines TST</b>					
Share capital	18	—	—	—	—
Reserves		<u>(24,242)</u>	<u>(21,646)</u>	<u>(1,139)</u>	<u>99,673</u>
<b>Total equity</b>		<u><u>(24,242)</u></u>	<u><u>(21,646)</u></u>	<u><u>(1,139)</u></u>	<u><u>99,673</u></u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accruals and other payables	19	1,062	1,214	928	866
Amounts due to fellow subsidiaries	17	408	22	—	—
Amount due to an intermediate holding company	17	198,069	198,069	190,396	187,362
Tax payable		<u>857</u>	<u>777</u>	<u>39</u>	<u>433</u>
		<u>200,396</u>	<u>200,082</u>	<u>191,363</u>	<u>188,661</u>
<b>Non-current liabilities</b>					
Deferred tax liabilities	20	—	—	—	17,791
<b>Total liabilities</b>		<u><u>200,396</u></u>	<u><u>200,082</u></u>	<u><u>191,363</u></u>	<u><u>206,452</u></u>
<b>Total equity and liabilities</b>		<u><u>176,154</u></u>	<u><u>178,436</u></u>	<u><u>190,224</u></u>	<u><u>306,125</u></u>
<b>Net current liabilities</b>		<u><u>(195,377)</u></u>	<u><u>(190,701)</u></u>	<u><u>(185,571)</u></u>	<u><u>(183,013)</u></u>
<b>Total assets less current liabilities</b>		<u><u>(24,242)</u></u>	<u><u>(21,646)</u></u>	<u><u>(1,139)</u></u>	<u><u>117,464</u></u>

The accompanying notes form an integral part of the Financial Information of Citadines TST.

## Statements of changes in equity

	Share capital <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2008	—	8,927	8,927
Loss for the year	—	(33,169)	(33,169)
Total comprehensive loss for the year	—	(33,169)	(33,169)
At 31 December 2008 and 1 January 2009	—	(24,242)	(24,242)
Profit for the year	—	2,596	2,596
Total comprehensive income for the year	—	2,596	2,596
At 31 December 2009 and 1 January 2010	—	(21,646)	(21,646)
Profit for the year	—	20,507	20,507
Total comprehensive income for the year	—	20,507	20,507
At 31 December 2010 and 1 January 2011	—	(1,139)	(1,139)
Profit for the period	—	100,812	100,812
Total comprehensive income for the period	—	100,812	100,812
At 30 June 2011	—	99,673	99,673
At 1 January 2010	—	(21,646)	(21,646)
Profit for the period	—	2,245	2,245
Total comprehensive income for the period	—	2,245	2,245
At 30 June 2010 (Unaudited)	—	(19,401)	(19,401)

## Statements of cash flows

	Year ended 31 December			Six months ended 30 June	
	2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2010 HK\$'000 (Unaudited)	2011 HK\$'000
<b>Operating activities</b>					
(Loss)/profit before taxation	(39,640)	3,106	24,411	2,875	120,875
Adjustments for:					
Depreciation of property, plant and equipment	75	106	142	69	77
Loss/(gain) arising on change in fair value of investment properties	44,199	2,287	(18,869)	—	(118,000)
Operating cash flows before movements in working capital	4,634	5,499	5,684	2,944	2,952
(Increase)/decrease in trade receivables	(94)	(62)	(94)	(102)	174
(Increase)/decrease in prepayments and other receivables	(193)	147	—	(186)	(20)
(Increase)/decrease in amounts due from fellow subsidiaries	(1,186)	(4,387)	4,205	(1,079)	1,004
(Decrease)/increase in accruals and other payables	(270)	152	(286)	(479)	(62)
Increase/(decrease) in amounts due to fellow subsidiaries	174	(386)	(22)	86	—
Decrease in amount due to an intermediate holding company	—	—	(7,673)	(144)	(3,034)
Cash generated from/(used in) operations	3,065	963	1,814	1,040	1,014
Tax paid	—	(537)	(1,056)	(337)	—
<b>Net cash generated from operating activities</b>	<u>3,065</u>	<u>426</u>	<u>758</u>	<u>703</u>	<u>1,014</u>
<b>Investing activities</b>					
Addition of investment properties	(3,199)	(287)	(131)	—	—
Purchase of property, plant and equipment	(420)	(79)	(105)	—	—
<b>Net cash used in investing activities</b>	<u>(3,619)</u>	<u>(366)</u>	<u>(236)</u>	<u>—</u>	<u>—</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(554)	60	522	703	1,014
<b>Cash and cash equivalents at beginning of year/period</b>	<u>701</u>	<u>147</u>	<u>207</u>	<u>207</u>	<u>729</u>
<b>Cash and cash equivalents at end of year/period</b>	<u><u>147</u></u>	<u><u>207</u></u>	<u><u>729</u></u>	<u><u>910</u></u>	<u><u>1,743</u></u>
<b>Analysis of the balances of cash and cash equivalents</b>					
Included in cash and cash equivalents per the statement of financial position	<u>147</u>	<u>207</u>	<u>729</u>	<u>910</u>	<u>1,743</u>



**B. NOTES TO FINANCIAL INFORMATION****1. General information**

Citadines TST was incorporated in Hong Kong with limited liability. The ultimate holding company is CapitaLand Limited, a company incorporated in the Republic of Singapore with its shares listed on the Singapore Exchange Securities Trading Limited.

The address of the registered office of Citadines TST is 18 Ashley Road, Tsimshatsui, Kowloon, Hong Kong.

Citadines TST's principal activity is property investment.

The Financial Information is presented in thousands of units of Hong Kong Dollars (HK\$'000), which is the same as the functional currency of Citadines TST.

**2. Basis of preparation**

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. In addition, the Financial Information included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Financial Information has been prepared under historical cost convention except for certain properties and financial instruments which are carried at fair value. The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Citadines TST's accounting policies.

Citadines TST's books and records are maintained in Hong Kong Dollars ("HK\$") as the directors of Citadines TST control and monitor the performance and financial position of Citadines TST in HK\$.

During the year ended 31 December 2008, Citadines TST incurred a net loss of approximately HK\$33,169,000, Citadines TST's total liabilities exceeded its total assets by approximately HK\$24,242,000, HK\$21,646,000 and HK\$1,139,000 at 31 December 2008, 2009 and 2010 respectively and Citadines TST's current liabilities exceeded its current assets by approximately HK\$183,013,000 at 30 June 2011. The Financial Information has been prepared on a going concern basis because the ultimate holding company of Citadines TST has confirmed to provide continuing financial support to Citadines TST to enable it to continue as a going concern and to settle its liabilities as and when they fall due for the foreseeable future.

### 3. New and revised standards, amendments and interpretations in issue but not yet effective

Citadines TST has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>3</sup>
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (Revised 2011)	Employee Benefits <sup>4</sup>
HKAS 27 (Revised 2011)	Separate Financial Statements <sup>4</sup>
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>4</sup>
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

— Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

— In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of Citadines TST anticipate that HKFRS 9 that will be adopted in Citadines TST's Financial Information for the annual period beginning on 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of Citadines TST's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendment to HKAS 12, introduces a presumption that an investment property measured at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. Prior to the amendment, deferred taxation on investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of investment properties through use. Therefore, based on the amendment, Citadines TST's investment properties do not have to provide deferred tax on fair value changes arising from revaluation of investment properties or arising from a business combination, unless the presumption is rebutted.

The directors of Citadines TST have concluded that the adoption of the amendment to HKAS 12 is likely to result in a restatement of Citadines TST's results of operations and financial position by increasing Citadines TST's loss for the year ended 31 December 2008 and accumulated losses at 31 December 2008 by approximately HK\$7,293,000 and HK\$6,771,000 respectively, decreasing Citadines TST's profit for the year ended 31 December 2009 and increasing accumulated losses at 31 December 2009 by approximately HK\$377,000 and HK\$7,148,000 respectively, increasing Citadines TST's profit for the year ended 31 December 2010 and decreasing accumulated losses at 31 December 2010 by approximately HK\$3,135,000 and HK\$4,013,000 respectively, and increasing Citadines TST's profit for the six months ended 30 June 2011 and retained profits at 30 June 2011 by approximately HK\$19,470,000 and HK\$15,475,000 respectively.

Save as described above, the directors of Citadines TST anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of Citadines TST.

#### **4. Summary of significant accounting policies**

##### **(a) Revenue recognition**

Rental income, including rentals invoiced in advance, from properties under operating lease is recognised on a straight-line basis over the period of the respective leases.

##### **(b) Impairment of assets**

Internal and external sources of information are reviewed at the end of each reporting period to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the statement of comprehensive income in the reporting period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

##### *Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

*Reversals of impairment losses*

An impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to the statement of comprehensive income in the reporting period in which the reversals are recognised.

**(c) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the reporting period. Taxable profit is the profit for the reporting period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary difference can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the reporting period when the liability is settled or the asset realised. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(d) Investment properties**

Investment properties are properties held to earn rental income and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gain or loss arising from changes in the fair value of investment properties are included in the statement of comprehensive income for the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the property) is included in the statement of comprehensive income for the year in which the item is derecognised.

An investment property is transferred at fair value to properties and other fixed assets when the property begins to be occupied by the owner. Gain or loss arising from change in fair value of the investment property upon the transfer is included in the statement of comprehensive income.

An owner-occupied property is transferred from properties and other fixed assets to investment property at fair value when it is evidenced by the end of owner-occupation. The difference between the carrying amount and fair value at the date of transfer is accounted for as a revaluation increase in accordance with HKAS 16, "Property, Plant and Equipment". On the subsequent sale or retirement of assets, the relevant revaluation reserve will be transferred directly to retained profits.

**(e) *Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment has been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the reporting period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is recognised so as to write off the cost of property, plant and equipment, using the straight-line method, over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Office equipment	20%
Furniture and fixtures	14%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the relevant asset and is recognised in the statement of comprehensive income in the year.

**(f) *Financial instruments***

Financial assets and financial liabilities are recognised on the statement of financial position when a group entity 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 (other than financial assets and financial liabilities at fair value through profit or loss) 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 the statement of comprehensive income.

*Financial assets*

Citadines TST's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. Citadines TST's major financial assets fall within the category of loans and receivables and the accounting policies adopted are set out below.

*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 on points 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.

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. At the end of each reporting period subsequent to initial recognition, loans and receivables including trade receivables, other receivables, amounts due from fellow subsidiaries and bank balances are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all other financial assets, objective evidence of impairment could include:

- (i) significant financial difficulty of the issuer or counterparty; or
- (ii) breach of contract, such as a default or delinquency in interest or principal payments; or
- (iii) it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Citadines TST's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the statement of comprehensive income 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent reporting periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

For financial assets measured at amortised cost, if, in a subsequent reporting period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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 a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Citadines TST's financial liabilities are mainly comprised of other financial liabilities which include accruals and other payables, amounts due to fellow subsidiaries and amount due to an intermediate holding company which fall within the category of other financial liabilities. These financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Citadines TST are recognised at the proceeds received, net of direct issue costs.

Repurchase of Citadines TST's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of Citadines TST's own equity instruments.

#### *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 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.

*Derecognition*

Citadines TST derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity 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 the statement of comprehensive income.

*Determination of fair value*

The fair value of financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include discounted cash flows analysis, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

**(g) Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Citadines TST will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

**(h) Cash and cash equivalents**

Cash and cash equivalents include deposits held at call with banks.

**(i) Leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to Citadines TST. Assets held under finance leases are initially recognised as at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor, net of interest charges, is included in the statement of financial position as a finance lease obligation. Finance costs are charged to the statement of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each reporting period.



All other leases are classified as operating leases and the annual rentals are charged to the statement of comprehensive income on a straight-line basis over the relevant lease term.

**(j) *Contingent liabilities and contingent assets***

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Citadines TST. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Citadines TST. A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(k) *Related party transaction***

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influences. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**(l) *Provisions***

Provisions are recognised when Citadines TST has a present obligation (legal or constructive) as a result of a past event, it is probable that Citadines TST will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**5. Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Citadines TST makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

**(a) Trade receivables**

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, Citadines TST may experience delays in collection. Where recoverability of trade debtor balances is called into doubts, specific provisions for impairments are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivables to the statement of comprehensive income. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

**(b) Useful lives of property, plant and equipment**

In accordance with HKAS 16, Citadines TST estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the assets are acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. Citadines TST also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

**(c) Investment properties**

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value of the investment properties, the valuers have based on method of valuation which involves certain assumptions and estimates that reflect, including comparable market transactions assuming that Citadines TST sales the properties on the market in their existing state by making reference to comparable sales evidences as available in the relevant market. In relying on the valuation report, the management of Citadines TST has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions. Should there be any changes in assumptions due to change of market conditions, the fair value of the investment properties will change in future.

**(d) Income taxes**

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Citadines TST recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the statement of comprehensive income for the year in which such a reversal takes place.

**6. Operating segments**

As per HKFRS 8 "Operating Segments", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown substantially as Citadines TST only engages in property investment business in Hong Kong.

**7. Turnover**

	Year ended 31 December			Six months ended	
	2008	2009	2010	30 June	
	HK\$'000	HK\$'000	HK\$'000	2010	2011
				(Unaudited)	
Rental income	5,326	5,835	6,183	3,090	3,065

**8. (Loss)/profit before taxation**

	Year ended 31 December			Six months ended	
	2008	2009	2010	30 June	
	HK\$'000	HK\$'000	HK\$'000	2010	2011
				(Unaudited)	
Auditors' remuneration	(95)	(95)	(95)	(60)	(60)
Depreciation of property, plant and equipment	(75)	(106)	(142)	(69)	(77)
Staff costs including directors' remuneration					
— salaries and other allowances	—	—	—	—	—
— contributions to retirement benefits scheme	—	—	—	—	—
Gross rental income from investment properties	5,326	5,835	6,183	3,090	3,065
Less: Direct operating expenses from investment properties that generated rental income during the year	(218)	(136)	(134)	(74)	(108)
	5,108	5,699	6,049	3,016	2,957

**9. Directors' emoluments**

No emoluments were paid to the directors of Citadines TST for the Relevant Periods.

For the Relevant Periods:

	Fees <i>HK\$'000</i>	Salaries and bonus <i>HK\$'000</i>	Contributions to retirement benefit scheme <i>HK\$'000</i>	Share- based payment expenses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Yeong Lai Meng	—	—	—	—	—
Yong Choon Miao, Gerald ( <i>note i</i> )	—	—	—	—	—
Chong Kee Hiong ( <i>note ii</i> )	—	—	—	—	—
Soh Cheow Yeow, Tony ( <i>note iii</i> )	—	—	—	—	—
Total emoluments	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

None of the directors of Citadines TST has waived any emoluments during the Relevant Periods.

*Notes:*

- (i) Yong Coon Miao, Gerald was appointed on 1 October 2009
- (ii) Chong Kee Hiong was resigned on 1 October 2009
- (iii) Soh Cheow Yeow, Tony was resigned on 1 October 2009

**10. Employees' emoluments**

During the Relevant Periods, no emoluments were paid by Citadines TST to the employees for services rendered or as an inducement to join or upon joining or as a compensation for loss of an office.

**11. Income tax credit/(expense)**

Income tax recognised in the statement of comprehensive income:

	Year ended 31 December			Six months ended 30 June	
	2008 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Current tax expense	(188)	(457)	(493)	(399)	(394)
Overprovision in prior year	—	—	175	—	—
Deferred taxation	6,659	(53)	(3,586)	(231)	(19,669)
	<u>6,471</u>	<u>(510)</u>	<u>(3,904)</u>	<u>(630)</u>	<u>(20,063)</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Relevant Periods.

The taxation for the Relevant Periods can be reconciled to the (loss)/profit before taxation per the statement of comprehensive income as follows:

	Year ended 31 December			Six months ended	
	2008	2009	2010	30 June	
	HK\$'000	HK\$'000	HK\$'000	2010	2011
				(Unaudited)	
(Loss)/profit before taxation	<u>(39,640)</u>	<u>3,106</u>	<u>24,411</u>	<u>2,875</u>	<u>120,875</u>
Taxation at income tax rate (2008, 2009, 2010 and 2011: 16.5%)	6,541	(512)	(4,028)	(474)	(19,944)
Tax effect of income that is not taxable in determining taxable profit	—	2	—	—	—
Tax effect of expenses that are not deductible in determining taxable profits	—	—	(51)	(156)	(119)
Overprovision in respect of prior year	—	—	175	—	—
Tax effect of underprovision of deferred tax in respect of prior year	<u>(70)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Taxation credit/(expense)	<u>6,471</u>	<u>(510)</u>	<u>(3,904)</u>	<u>(630)</u>	<u>(20,063)</u>

## 12. Dividend

The directors of Citadines TST do not recommend the payment of any dividend for the Relevant Periods.

## 13. Investment properties

	HK\$'000
<b>Fair value</b>	
At 1 January 2008	206,000
Additions	3,199
Decrease in fair value recognised in the statement of comprehensive income	<u>(44,199)</u>
At 31 December 2008 and 1 January 2009	165,000
Additions	287
Decrease in fair value recognised in the statement of comprehensive income	<u>(2,287)</u>
At 31 December 2009 and 1 January 2010	163,000
Additions	131
Increase in fair value recognised in the statement of comprehensive income	<u>18,869</u>
At 31 December 2010 and 1 January 2011	182,000
Increase in fair value recognised in the statement of comprehensive income	<u>118,000</u>
At 30 June 2011	<u>300,000</u>

The fair values of Citadines TST's investment properties as at 31 December 2008, 2009 and 2010 have been arrived at on the basis of a valuation carried out on that date by Messrs. DTZ Debenham Tie Leung Limited ("DTZ"), independent qualified professional valuer not connected to Citadines TST.

The fair values of Citadines TST's investment properties as at 30 June 2011 have been arrived at on the basis of a valuation carried out on that date by Messrs. Grant Sherman Appraisal Limited ("Grant Sherman"), independent qualified professional valuer not connected to Citadines TST.

DTZ and Grant Sherman are members of The Hong Kong Institute of Surveyors and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

All of Citadines TST's property interests held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

The carrying amount of investment properties shown above comprises:

	<b>At 31 December</b>			<b>At</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>30 June</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2011</b>
				<i>HK\$'000</i>
Properties in Hong Kong held under medium-term lease	<u>165,000</u>	<u>163,000</u>	<u>182,000</u>	<u>300,000</u>

## 14. Property, plant and equipment

	Office equipment <i>HK\$'000</i>	Furniture and fixture <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>			
At 1 January 2008	12	289	301
Additions	413	7	420
At 31 December 2008 and 1 January 2009	425	296	721
Additions	—	79	79
At 31 December 2009 and 1 January 2010	425	375	800
Additions	—	105	105
At 31 December 2010, 1 January 2011 and 30 June 2011	425	480	905
<b>Accumulated depreciation</b>			
At 1 January 2008	1	27	28
Charged for the year	18	57	75
At 31 December 2008 and 1 January 2009	19	84	103
Charged for the year	78	28	106
At 31 December 2009 and 1 January 2010	97	112	209
Charged for the year	85	57	142
At 31 December 2010 and 1 January 2011	182	169	351
Charged for the period	43	34	77
At 30 June 2011	225	203	428
<b>Carrying amounts</b>			
At 31 December 2008	406	212	618
At 31 December 2009	328	263	591
At 31 December 2010	243	311	554
At 30 June 2011	200	277	477

## 15. Trade receivables

	At 31 December			At
	2008	2009	2010	30 June
	HK\$'000	HK\$'000	HK\$'000	2011
0 – 30 days	76	113	250	76
31 – 60 days	18	43	—	—
61 – 90 days	—	—	—	—
	<u>94</u>	<u>156</u>	<u>250</u>	<u>76</u>
<i>Less: Impairment loss recognised</i>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>94</u>	<u>156</u>	<u>250</u>	<u>76</u>

Included in trade receivables comprised rental receivables billed in advance and settlements from tenants are expected upon receipts of billings.

Citadines TST maintains a defined credit policy to assess the credit quality of each counterparty. The collection is closely monitored to minimise any credit risk associated with these trade debtors.

For those past due but not impaired receivables, although no collateral is held, Citadines TST has assessed the creditworthiness, past payment history and substantial settlement after the end of the reporting period, and considers that the amounts are still recoverable and no further credit provision is required in excess of allowance of doubtful debts. Trade receivables over 30 days amounting to approximately HK\$18,000, HK\$43,000, Nil and Nil at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively are sufficiently covered by rental deposits received from the respective tenants and no allowance is required for these receivables under Citadines TST's allowance policy.

Trade receivables which are neither overdue nor impaired are in good quality.

The directors of Citadines TST consider the carrying amounts of trade receivables approximate to their fair values.

## 16. Prepayments and other receivables

	At 31 December			At
	2008	2009	2010	30 June
	HK\$'000	HK\$'000	HK\$'000	2011
Prepayments	20	1	1	21
Other receivables	<u>173</u>	<u>45</u>	<u>45</u>	<u>45</u>
	<u>193</u>	<u>46</u>	<u>46</u>	<u>66</u>

The directors of Citadines TST consider the carrying amounts of the prepayments and other receivables approximate to their fair values.



**17. Amounts due from/(to) fellow subsidiaries and to an intermediate holding company**

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

The directors of Citadines TST consider that the carrying amounts of the amounts due from/(to) fellow subsidiaries and to an intermediate holding company approximate to their fair values.

**18. Share capital**

	At 31 December			At 30 June
	2008	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:				
10,000 ordinary shares of HK\$1 each	10	10	10	10
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Issued and fully paid:				
1 ordinary share of HK\$1 each	HK\$1	HK\$1	HK\$1	HK\$1
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**19. Accruals and other payables**

	At 31 December			At 30 June
	2008	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals	—	—	124	186
Other payables	1,062	1,214	804	680
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>1,062</u>	<u>1,214</u>	<u>928</u>	<u>866</u>

The directors of Citadines TST consider the carrying amounts of accruals and other payables approximate to their fair values.

**20. Deferred taxation**

The followings are the major deferred tax liabilities and assets recognised and movements thereon:

	<b>Revaluation of investment properties</b> <i>HK\$'000</i>	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2008	522	620	1,142
(Credit)/charge to the statement of comprehensive income	<u>(7,293)</u>	<u>634</u>	<u>(6,659)</u>
At 31 December 2008 and 1 January 2009	(6,771)	1,254	(5,517)
(Credit)/charge to the statement of comprehensive income	<u>(377)</u>	<u>430</u>	<u>53</u>
At 31 December 2009 and 1 January 2010	(7,148)	1,684	(5,464)
Charge to the statement of comprehensive income	<u>3,135</u>	<u>451</u>	<u>3,586</u>
At 31 December 2010 and 1 January 2011	(4,013)	2,135	(1,878)
Charge to the statement of comprehensive income	<u>19,470</u>	<u>199</u>	<u>19,669</u>
At 30 June 2011	<u><u>15,457</u></u>	<u><u>2,334</u></u>	<u><u>17,791</u></u>

**21. Commitments***Lease commitments**As lessor*

Property rental income earned during the years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2011 were approximately HK\$5,326,000, HK\$5,835,000, HK\$6,183,000 and HK\$3,065,000 respectively, less outgoings of approximately HK\$218,000, HK\$136,000, HK\$134,000 and HK\$108,000 respectively.

The investment properties of Citadines TST are expected to generate annual rental yields of 3.23%, 3.58%, 3.40% and 2.04% for the years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2011 respectively on an ongoing basis. All of the properties held have committed tenants for two to three years.

Citadines TST had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	3,452	1,320	1,597	7,751
In the second to fifth year inclusive	<u>1,300</u>	<u>1,119</u>	<u>708</u>	<u>1,391</u>
	<u><u>4,752</u></u>	<u><u>2,439</u></u>	<u><u>2,305</u></u>	<u><u>9,142</u></u>

**22. Material related party transactions**

Save as disclosed elsewhere in the Financial Information, Citadines TST entered into the following material related party transactions during the Relevant Periods:

- (a) Remuneration for key management personnel during the Relevant Periods were disclosed in Note 9 to the Financial Information.
- (b) Citadines TST had the following material transactions with following related parties during the Relevant Periods:

Nature of related party relationship	Nature of transaction	Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
Fellow subsidiary	Rental income	4,500	4,500	4,500	2,250	2,250
Fellow subsidiary	Technical advisory fee	157	—	—	—	—

**23. Capital Management***Capital risk management*

The primary objective of Citadines TST's capital management is to safeguard Citadines TST's ability to continue as a going concern, maintains a strong credit rating and healthy ratios in order to support its business and enhance shareholder value.

Citadines TST manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Citadines TST may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or raise and repay debts. Citadines TST's capital management objectives, policies or processes were unchanged during the years ended 2008, 2009 and 2010 and six months ended 30 June 2011.

*Gearing ratio*

Citadines TST has adopted a capital structure policy primary not to finance its operation through borrowings. Based on Citadines TST's policy, the gearing ratio at the end of the Relevant Periods were zero.

**24. Financial instruments***Categories of financial instruments*

	At 31 December			At
	2008	2009	2010	30 June 2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents)	4,999	9,380	5,791	5,627
<b>Financial liabilities</b>				
Amortised cost	199,539	199,305	191,324	188,228

*Financial risk management objectives and policies*

Citadines TST's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Citadines TST's financial performance. These risks include credit risk, liquidity risk, price risk and foreign currency risk.

*(a) Credit risk*

Citadines TST's maximum exposure to credit risk which will cause a financial loss to Citadines TST due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the management of Citadines TST has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, Citadines TST reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Citadines TST consider that Citadines TST's credit risk is significantly reduced.

*(b) Liquidity risk*

Citadines TST manages its liquidity risk by ensuring it has sufficient liquid cash balances to meet its payment obligations as they fall due.

Citadines TST closely monitors its exposure to liquidity risk by reviewing the cash position report monthly. Citadines TST mainly relies on cash inflow from provision of management services to fund its operations. Citadines TST has sufficient cash on hand and also has alternative plans to monitor liquidity risk should there be significant adverse changes on Citadines TST's cash flow projections.

The following tables detail Citadines TST's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which Citadines TST can be required to pay. The tables include both interest and principal cash flows.

	Within 1 year <i>HK\$'000</i>	Within 2 to 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total undiscounted cash flow <i>HK\$'000</i>	Total carrying amount <i>HK\$'000</i>
At 31 December 2008					
Accruals and other payables	1,062	—	—	1,062	1,062
Amounts due to fellow subsidiaries	408	—	—	408	408
Amount due to an intermediate holding company	198,069	—	—	198,069	198,069
	<u>199,539</u>	<u>—</u>	<u>—</u>	<u>199,539</u>	<u>199,539</u>
At 31 December 2009					
Accruals and other payables	1,214	—	—	1,214	1,214
Amounts due to fellow subsidiaries	22	—	—	22	22
Amount due to an intermediate holding company	198,069	—	—	198,069	198,069
	<u>199,305</u>	<u>—</u>	<u>—</u>	<u>199,305</u>	<u>199,305</u>
At 31 December 2010					
Accruals and other payables	928	—	—	928	928
Amount due to an intermediate holding company	190,396	—	—	190,396	190,396
	<u>191,324</u>	<u>—</u>	<u>—</u>	<u>191,324</u>	<u>191,324</u>
At 30 June 2011					
Accruals and other payables	866	—	—	866	866
Amount due to an intermediate holding company	187,362	—	—	187,362	187,362
	<u>188,228</u>	<u>—</u>	<u>—</u>	<u>188,228</u>	<u>188,228</u>

*(c) Price risk*

At the end of the Relevant Periods, Citadines TST has no significant exposure to price risk.

*(d) Foreign currency risk*

Citadines TST has no significant exposure to foreign currency risk as substantially all of Citadines TST's transactions are denominated in Hong Kong dollars.

(e) *Fair value of financial instruments*

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of Citadines TST consider that the carrying amounts of financial assets and financial liabilities recognised in the Financial Information approximate to their fair values.

**25. Subsequent events**

No significant events took place subsequent to 30 June 2011.

**C. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared for Citadines TST in respect of any period subsequent to 30 June 2011 and no dividends or other distributions have been declared by Citadines TST in respect of any period subsequent to 30 June 2011.

Yours faithfully  
**HLB Hodgson Impey Cheng**  
Chartered Accountants  
Certified Public Accountants  
Hong Kong

*The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.*



Chartered Accountants  
Certified Public Accountants

31/F Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

17 October 2011

The Directors  
Eternity Investment Limited  
Unit 3811, 38/F., Shun Tak Centre, West Tower  
168-200 Connaught Road Central  
Hong Kong

Dear Sirs,

We report on the financial information (the “Financial Information”) of Citadines Ashley TST Management (Hong Kong) Limited (“Citadines TST Management”) set out in Sections A, B and C below, for inclusion in the circular of Eternity Investment Limited (the “Company”) dated 17 October 2011 (the “Circular”) in connection with the proposed acquisition of the entire issued share capital of Citadines TST Management by Golden Stone Management Limited, a wholly-owned subsidiary of the Company. The Financial Information comprises the statements of financial position of Citadines TST Management as at 31 December 2008, 2009 and 2010 and 30 June 2011, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory notes.

Citadines TST Management was incorporated in Hong Kong with limited liability on 1 March 2006 and its principal activity is operation of service apartments.

Citadines TST Management has adopted 31 December as its financial year end date and the statutory financial statements of Citadines TST Management for the years ended 31 December 2008, 2009 and 2010 were audited by KPMG in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND REPORTING  
ACCOUNTANTS**

The directors of Citadines TST Management are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with accounting policies set out in Note 4 to the Financial Information which confirm with the HKFRSs issued by the HKICPA. The directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

**BASIS OF OPINION**

For the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

**OPINION**

In our opinion, the Financial Information for the Relevant Periods, for the purpose of this report, gives a true and fair view of the state of affairs of Citadines TST Management as at 31 December 2008, 2009 and 2010 and 30 June 2011, and of the results and cash flows of Citadines TST Management for the Relevant Periods.

**MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF  
ACCOUNTING**

Without qualifying our opinion, we draw attention to Note 2 in the Financial Information which indicates that Citadines TST Management incurred a net loss of approximately HK\$1,395,000 during the year ended 31 December 2009 and Citadines TST Management's total liabilities exceeded its total assets by approximately HK\$1,656,000, HK\$3,051,000, HK\$2,611,000 and HK\$1,215,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively. These conditions, along with other matters as set out in Note 2 to the Financial Information, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.



**COMPARATIVE FINANCIAL INFORMATION****Respective responsibilities of directors and reporting accountants**

The directors of Citadines TST Management are responsible for the preparation and presentation of the unaudited financial information of Citadines TST Management including the statement of comprehensive income, the statement of changes in equity and the statement of cash flow for the period from 1 January 2010 to 30 June 2010, together with the notes thereto (the “Unaudited Comparative Financial Information of Citadines TST Management”).

For the purpose of this Circular, we have reviewed the Unaudited Comparative Financial Information of Citadines TST Management, for which the directors of Citadines TST Management are responsible, in accordance with Hong Kong Standard on Review Engagements 2400 “Engagements to Review Financial Statements” issued by the HKICPA. A review consists principally of making enquiries of Citadines TST Management’s management and applying analytical procedures to the Unaudited Comparative Financial Information of Citadines TST Management and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information of Citadines TST Management.

**Conclusion**

On the basis of our review which does not constitute an audit, for the purpose of this Circular, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information of Citadines TST Management, for the purpose of the Circular, has not been prepared, in all material respects, in accordance with HKFRSs.

## A. FINANCIAL INFORMATION OF CITADINES TST MANAGEMENT

## Statements of comprehensive income

	Notes	Year ended 31 December			Six months ended 30 June	
		2008 HK\$'000	2009 HK\$'000	2010 HK\$'000	2010 HK\$'000	2011 HK\$'000
Turnover	7	10,803	8,170	10,845	5,014	6,364
Cost of sales		<u>(8,150)</u>	<u>(8,176)</u>	<u>(8,667)</u>	<u>(4,112)</u>	<u>(4,247)</u>
Gross profit/(loss)		2,653	(6)	2,178	902	2,117
Marketing expenses		(234)	(156)	(226)	(96)	(225)
Administrative expenses		<u>(1,315)</u>	<u>(1,233)</u>	<u>(1,512)</u>	<u>(896)</u>	<u>(496)</u>
Profit/(loss) before taxation	8	1,104	(1,395)	440	(90)	1,396
Income tax expense	11	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Profit/(loss) for the year/ period</b>		<b><u>1,104</u></b>	<b><u>(1,395)</u></b>	<b><u>440</u></b>	<b><u>(90)</u></b>	<b><u>1,396</u></b>
<b>Profit/(loss) for the year/ period attributable to owners of Citadines TST Management</b>		<b><u>1,104</u></b>	<b><u>(1,395)</u></b>	<b><u>440</u></b>	<b><u>(90)</u></b>	<b><u>1,396</u></b>
<b>Total comprehensive income/(loss) for the year/period</b>		<b><u>1,104</u></b>	<b><u>(1,395)</u></b>	<b><u>440</u></b>	<b><u>(90)</u></b>	<b><u>1,396</u></b>
<b>Total comprehensive income/(loss) for the year/period attributable to owners of Citadines TST Management</b>		<b><u>1,104</u></b>	<b><u>(1,395)</u></b>	<b><u>440</u></b>	<b><u>(90)</u></b>	<b><u>1,396</u></b>

The accompanying notes form an integral part of the Financial Information of Citadines TST Management.

## Statements of financial position

		At 31 December			At
		2008	2009	2010	30 June
	Notes	HK\$'000	HK\$'000	HK\$'000	2011
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Trade receivables	13	322	165	24	133
Deposits, prepayments, and other receivables	14	353	395	399	416
Amounts due from fellow subsidiaries	15	123	19	410	500
Cash and cash equivalents		6,309	8,738	4,173	4,473
<b>Total assets</b>		<u>7,107</u>	<u>9,317</u>	<u>5,006</u>	<u>5,522</u>
<b>EQUITY</b>					
<b>Capital and reserves attributable to owners of Citadines TST Management</b>					
Share capital	16	—	—	—	—
Reserves		(1,656)	(3,051)	(2,611)	(1,215)
<b>Total equity</b>		<u>(1,656)</u>	<u>(3,051)</u>	<u>(2,611)</u>	<u>(1,215)</u>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accruals and other payables	17	1,077	831	1,278	717
Amounts due to fellow subsidiaries	15	6,686	10,537	5,339	5,020
Amount due to an intermediate holding company	15	1,000	1,000	1,000	1,000
<b>Total liabilities</b>		<u>8,763</u>	<u>12,368</u>	<u>7,617</u>	<u>6,737</u>
<b>Total equity and liabilities</b>		<u>7,107</u>	<u>9,317</u>	<u>5,006</u>	<u>5,522</u>
<b>Net current liabilities</b>		<u>(1,656)</u>	<u>(3,051)</u>	<u>(2,611)</u>	<u>(1,215)</u>
<b>Total assets less current liabilities</b>		<u>(1,656)</u>	<u>(3,051)</u>	<u>(2,611)</u>	<u>(1,215)</u>

The accompanying notes form an integral part of the Financial Information of Citadines TST Management.

## Statements of changes in equity

	Share capital <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2008	—	(2,760)	(2,760)
Profit for the year	<u>—</u>	<u>1,104</u>	<u>1,104</u>
Total comprehensive income for the year	<u>—</u>	<u>1,104</u>	<u>1,104</u>
At 31 December 2008 and 1 January 2009	—	(1,656)	(1,656)
Loss for the year	<u>—</u>	<u>(1,395)</u>	<u>(1,395)</u>
Total comprehensive loss for the year	<u>—</u>	<u>(1,395)</u>	<u>(1,395)</u>
At 31 December 2009 and 1 January 2010	—	(3,051)	(3,051)
Profit for the year	<u>—</u>	<u>440</u>	<u>440</u>
Total comprehensive income for the year	<u>—</u>	<u>440</u>	<u>440</u>
At 31 December 2010 and 1 January 2011	—	(2,611)	(2,611)
Profit for the period	<u>—</u>	<u>1,396</u>	<u>1,396</u>
Total comprehensive income for the period	<u>—</u>	<u>1,396</u>	<u>1,396</u>
At 30 June 2011	<u>—</u>	<u>(1,215)</u>	<u>(1,215)</u>
At 1 January 2010	—	(3,051)	(3,051)
Loss for the period	<u>—</u>	<u>(90)</u>	<u>(90)</u>
Total comprehensive loss for the period	<u>—</u>	<u>(90)</u>	<u>(90)</u>
At 30 June 2010 (Unaudited)	<u>—</u>	<u>(3,141)</u>	<u>(3,141)</u>

**Statements of cash flows**

	<b>Year ended 31 December</b>			<b>Six months ended</b>	
				<b>30 June</b>	
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2011</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)				
<b>Operating activities</b>					
Profit/(loss) before taxation and operating cash flows before movements in working capital	1,104	(1,395)	440	(90)	1,396
(Increase)/decrease in trade receivables	(16)	157	141	(123)	(109)
Increase in prepayments and other receivables	(3)	(42)	(4)	(121)	(17)
Decrease/(increase) in amounts due from fellow subsidiaries	11	104	(391)	(188)	(90)
(Decrease)/increase in accruals and other payables	(405)	(246)	447	(113)	(561)
Increase/(decrease) in amounts due to fellow subsidiaries	<u>2,411</u>	<u>3,851</u>	<u>(5,198)</u>	<u>812</u>	<u>(319)</u>
<b>Net cash generated from/(used in) operating activities</b>	<u>3,102</u>	<u>2,429</u>	<u>(4,565)</u>	<u>177</u>	<u>300</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	3,102	2,429	(4,565)	177	300
<b>Cash and cash equivalents at beginning of year/period</b>	<u>3,207</u>	<u>6,309</u>	<u>8,738</u>	<u>8,738</u>	<u>4,173</u>
<b>Cash and cash equivalents at end of year/period</b>	<u><u>6,309</u></u>	<u><u>8,738</u></u>	<u><u>4,173</u></u>	<u><u>8,915</u></u>	<u><u>4,473</u></u>
<b>Analysis of the balances of cash and cash equivalents</b>					
Included in cash and cash equivalents per the statement of financial position	<u><u>6,309</u></u>	<u><u>8,738</u></u>	<u><u>4,173</u></u>	<u><u>8,915</u></u>	<u><u>4,473</u></u>

**B. NOTES TO FINANCIAL INFORMATION****1. General information**

Citadines TST Management was incorporated in Hong Kong with limited liability. The ultimate holding company is CapitaLand Limited, a company incorporated in the Republic of Singapore with its shares listed on the Singapore Exchange Securities Trading Limited.

The address of the registered office of Citadines TST Management is 18 Ashley Road, Tsimshatsui, Kowloon, Hong Kong.

Citadines TST Management's principal activity is operation of service apartments.

The Financial Information is presented in thousands of units of Hong Kong Dollars (HK\$'000), which is the same as the functional currency of Citadines TST Management.

**2. Basis of preparation**

The Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. In addition, the Financial Information included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Financial Information has been prepared under historical cost convention except for certain financial instruments which are carried at fair value. The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Citadines TST Management's accounting policies.

Citadines TST Management's books and records are maintained in Hong Kong Dollars ("HK\$") as the directors of Citadines TST Management control and monitor the performance and financial position of Citadines TST Management in HK\$.

During the year ended 31 December 2009, Citadines TST Management incurred a net loss of approximately HK\$1,395,000 and Citadines TST Management's total liabilities exceeded its total assets by approximately HK\$1,656,000, HK\$3,051,000, HK\$2,611,000 and HK\$1,215,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively. The Financial Information has been prepared on a going concern basis because the ultimate holding company of Citadines TST Management has confirmed to provide continuing financial support to Citadines TST Management to enable it to continue as a going concern and to settle its liabilities as and when they fall due for the foreseeable future.

**3. New and revised standards, amendments and interpretations in issue but not yet effective**

Citadines TST Management has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>3</sup>
HKAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (Revised 2011)	Employee Benefits <sup>4</sup>
HKAS 27 (Revised 2011)	Separate Financial Statements <sup>4</sup>
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>4</sup>
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

— Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

— In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of Citadines TST Management anticipate that HKFRS 9 will be adopted in Citadines TST Management's Financial Information for the annual period beginning on 1 January 2013 and that the application of the new standard may have a significant

impact on amounts reported in respect of Citadines TST Management's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Save as described above, the directors of Citadines TST Management anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of Citadines TST Management.

#### 4. Summary of significant accounting policies

##### (a) *Revenue recognition*

Rental income, including rentals invoiced in advance, from properties under operating lease is recognised on a straight-line basis over the period of the respective leases.

##### (b) *Impairment of assets*

Internal and external sources of information are reviewed at the end of each reporting period to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the statement of comprehensive income in the reporting period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

##### *Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

##### *Reversals of impairment losses*

An impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to the statement of comprehensive income in the reporting period in which the reversals are recognised.

##### (c) *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the reporting period. Taxable profit is the profit for the reporting period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.



Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary difference can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the reporting period when the liability is settled or the asset realised. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(d) *Financial instruments***

Financial assets and financial liabilities are recognised on the statement of financial position when a group entity 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 (other than financial assets and financial liabilities at fair value through profit or loss) 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 the statement of comprehensive income.

*Financial assets*

Citadines TST Management's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. Citadines TST Management's major financial assets fall within the category of loans and receivables and the accounting policies adopted are set out below.

*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 on points 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.

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. At the end of each reporting period subsequent to initial recognition, loans and receivables including trade receivables, deposits, other receivables, amounts due from fellow subsidiaries and bank balances are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all other financial assets, objective evidence of impairment could include:

- (i) significant financial difficulty of the issuer or counterparty; or
- (ii) breach of contract, such as a default or delinquency in interest or principal payments; or
- (iii) it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Citadines TST Management's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the statement of comprehensive income 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent reporting periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

For financial assets measured at amortised cost, if, in a subsequent reporting period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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 a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Citadines TST Management's financial liabilities are mainly comprised of other financial liabilities which include accruals and other payables, amounts due to fellow subsidiaries and amount due to an intermediate holding company which fall within the category of other financial liabilities. These financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Citadines TST Management are recognised at the proceeds received, net of direct issue costs.

Repurchase of Citadines TST Management's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of Citadines TST Management's own equity instruments.

#### *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 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.

#### *Derecognition*

Citadines TST Management derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity 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 the statement of comprehensive income.

*Determination of fair value*

The fair value of financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include discounted cash flows analysis, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

**(e) Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Citadines TST Management will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

**(f) Cash and cash equivalents**

Cash and cash equivalents include deposits held at call with banks.

**(g) Leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to Citadines TST Management. Assets held under finance leases are initially recognised as at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor, net of interest charges, is included in the statement of financial position as a finance lease obligation. Finance costs are charged to the statement of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each reporting period.

All other leases are classified as operating leases and the annual rentals are charged to the statement of comprehensive income on a straight-line basis over the relevant lease term.

**(h) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Citadines TST Management. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Citadines TST Management. A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(i) ***Related party transaction***

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influences. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(j) ***Provisions***

Provisions are recognised when Citadines TST Management has a present obligation (legal or constructive) as a result of a past event, it is probable that Citadines TST Management will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**5. Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Citadines TST Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

(a) ***Trade receivables***

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, Citadines TST Management may experience delays in collection. Where recoverability of trade debtor balances is called into doubt, specific provisions for impairments are made based

on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivables to the statement of comprehensive income. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(b) *Income taxes*

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Citadines TST Management recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the statement of comprehensive income for the year in which such a reversal takes place.

6. **Operating segments**

As per HKFRS 8 "Operating Segments", no business analysis and segment reporting information such as segment revenue, results, assets, liabilities and other information are shown substantially as Citadines TST Management only engages in operation of service apartments business in Hong Kong.

7. **Turnover**

	Year ended 31 December			Six months ended	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Rental income	10,715	8,110	10,811	4,986	6,331
Other service income	88	60	34	28	33
	<u>10,803</u>	<u>8,170</u>	<u>10,845</u>	<u>5,014</u>	<u>6,364</u>

## 8. Profit/(loss) before taxation

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditors' remuneration	102	120	100	60	60
Staff costs including directors' remuneration					
— salaries and other allowances	2,274	2,196	2,472	1,239	1,273
— contributions to retirement benefits scheme	112	107	122	60	71
Operating lease charges on property	4,500	4,500	4,500	2,250	2,250
	<u>4,500</u>	<u>4,500</u>	<u>4,500</u>	<u>2,250</u>	<u>2,250</u>

## 9. Directors' emoluments

No emoluments were paid to the directors of Citadines TST Management for the Relevant Periods.

For the Relevant Periods:

	Fees	Salaries and bonus	Contributions to retirement benefit scheme	Share- based payment expenses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Yeong Lai Meng ( <i>note i</i> )	—	—	—	—	—
Lee Chee Koon ( <i>note ii</i> )	—	—	—	—	—
Lee Hwee Keong, Gerald ( <i>note iii</i> )	—	—	—	—	—
Goh Soon Keat Kevin ( <i>note iv</i> )	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total emoluments	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

None of the directors of Citadines TST Management has waived any emoluments during the Relevant Periods.

Notes:

- (i) Yeong Lai Meng was resigned on 19 April 2010
- (ii) Lee Chee Koon was appointed on 21 October 2009
- (iii) Lee Hwee Keong, Gerald was resigned on 21 October 2009
- (iv) Goh Soon Keat Kevin was appointed on 19 April 2010

**10. Employees' emoluments**

Of the five individuals with the highest emoluments in Citadines TST Management during the Relevant Periods, none of them were directors of Citadines TST Management. The emoluments of the five individuals are as follows:

	Year ended 31 December			Six months ended	
	2008	2009	2010	30 June	
	HK\$'000	HK\$'000	HK\$'000	2010	2011
				(Unaudited)	
Salaries and other allowances	821	849	888	468	510
Contributions to retirement benefits scheme	41	42	44	23	18
	<u>862</u>	<u>891</u>	<u>932</u>	<u>491</u>	<u>528</u>

Their emoluments are within the following bands:

	Number of employees				
	Year ended 31 December			Six months ended	
	2008	2009	2010	30 June	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)				
Nil – HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

**11. Income tax expense**

No provision for Hong Kong Profits Tax has been made in the Financial Information as Citadines TST Management had no assessable profit for the Relevant Periods.

No deferred tax assets or liabilities have been recognised in the Financial Information as there was no significant timing difference at the end of the Relevant Periods.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Relevant Periods.



The taxation for the Relevant Periods can be reconciled to the profit/(loss) before taxation per the statement of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Profit/(loss) before taxation	<u>1,104</u>	<u>(1,395)</u>	<u>440</u>	<u>(90)</u>	<u>1,396</u>
Taxation at income tax rate (2008, 2009, 2010 and 2011: 16.5%)	(182)	230	(73)	15	(230)
Utilisation of tax losses previously not recognised	182	—	73	—	230
Tax losses not yet recognised	<u>—</u>	<u>(230)</u>	<u>—</u>	<u>(15)</u>	<u>—</u>
Taxation expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Citadines TST Management had unused estimated tax losses of approximately HK\$1,577,000, HK\$2,972,000, HK\$2,532,000 and HK\$2,302,000 at 31 December 2008, 2009 and 2010 and 30 June 2011 respectively which are available for offsetting against future taxable profits. No deferred tax asset has been recognised in respect of the unused estimated tax losses due to the unpredictability of future profit streams.

## 12. Dividend

The directors of Citadines TST Management do not recommend the payment of any dividend for the Relevant Periods.

## 13. Trade receivables

	At 31 December			At 30 June
	2008	2009	2010	2011
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
0 – 30 days	<u>332</u>	<u>165</u>	<u>24</u>	<u>133</u>
	332	165	24	133
Less: Impairment loss recognised	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>332</u>	<u>165</u>	<u>24</u>	<u>133</u>

Room guests are requested to settle all outstanding balances before they check out. Normally, upon check-in Citadines TST Management will require its room guests for credit card debit authorisation. Other than that, Citadines TST Management does not obtain any other collateral from its room guests.

At 31 December 2008, 2009 and 2010 and 30 June 2011, none of the trade receivables was past due, and Citadines TST Management assessed that none of the trade receivables was considered to be impaired.

Based on past experience, directors of Citadines TST Management believe that no impairment allowance is necessary in respect of these trade receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The directors of Citadines TST Management consider the carrying amounts of trade receivables approximate to their fair values.

#### 14. Deposits, prepayments and other receivables

	At 31 December			At
	2008	2009	2010	30 June
	HK\$'000	HK\$'000	HK\$'000	2011
Deposits	279	314	314	314
Prepayments	74	36	38	51
Other receivables	—	45	47	51
	<u>353</u>	<u>395</u>	<u>399</u>	<u>416</u>

The directors of Citadines TST Management consider the carrying amounts of the deposits, prepayments and other receivables approximate to their fair values.

#### 15. Amounts due from/(to) fellow subsidiaries and to an intermediate holding company

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

The directors of Citadines TST Management consider that the carrying amounts of the amounts due from/(to) fellow subsidiaries and to an intermediate holding company approximate to their fair values.

#### 16. Share capital

	At 31 December			At
	2008	2009	2010	30 June
	HK\$'000	HK\$'000	HK\$'000	2011
Authorised:				
10,000 ordinary shares of HK\$1 each	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
Issued and fully paid:				
1 ordinary share of HK\$1 each	<u>HK\$1</u>	<u>HK\$1</u>	<u>HK\$1</u>	<u>HK\$1</u>

**17. Accruals and other payables**

	At 31 December			At
	2008	2009	2010	30 June
	HK\$ '000	HK\$ '000	HK\$ '000	2011
Accruals	580	336	108	1
Other payables	497	495	1,170	716
	<u>1,077</u>	<u>831</u>	<u>1,278</u>	<u>717</u>

The directors of Citadines TST Management consider the carrying amounts of accruals and other payables approximate to their fair values.

**18. Commitments***Lease commitments**As lessee*

At the reporting date, Citadines TST Management had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	At 31 December			At
	2008	2009	2010	30 June
	HK\$ '000	HK\$ '000	HK\$ '000	2011
Within one year	2,096	—	2,096	4,500
In the second to fifth year inclusive	—	—	—	—
	<u>2,096</u>	<u>—</u>	<u>2,096</u>	<u>4,500</u>

Operating lease payments represented rentals payable by Citadines TST Management for rented premises. Leases are negotiated for an initial period of three years.

**19. Material related party transactions**

Save as disclosed elsewhere in the Financial Information, Citadines TST Management entered into the following material related party transactions during the Relevant Periods:

- (a) Remuneration for key management personnel during the Relevant Periods were disclosed in Note 9 to the Financial Information.

- (b) Citadines TST Management had the following material transactions with following related parties during the Relevant Periods:

Nature of related party relationship	Nature of transaction	Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Unaudited)
Fellow subsidiary	Rental expense	4,500	4,500	4,500	2,250	2,250
Fellow subsidiary	Management fee	496	302	407	334	536
Fellow subsidiary	Marketing fee	199	117	—	—	—
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 20. Capital Management

### *Capital risk management*

The primary objective of Citadines TST Management's capital management is to safeguard Citadines TST Management's ability to continue as a going concern, maintains a strong credit rating and healthy ratios in order to support its business and enhance shareholder value.

Citadines TST Management manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Citadines TST Management may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or raise and repay debts. Citadines TST Management's capital management objectives, policies or processes were unchanged during the years ended 2008, 2009 and 2010 and six months ended 30 June 2011.

### *Gearing ratio*

Citadines TST Management has adopted a capital structure policy primary not to finance its operation through borrowings. Based on Citadines TST Management's policy, the gearing ratio at the end of the Relevant Periods were zero.

## 21. Financial instruments

### *Categories of financial instruments*

	At 31 December			At
	2008	2009	2010	30 June
	HK\$'000	HK\$'000	HK\$'000	2011
				HK\$'000
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents)	7,033	9,281	4,968	5,471
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Financial liabilities</b>				
Amortised cost	8,763	12,368	7,617	6,737
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

*Financial risk management objectives and policies*

Citadines TST Management's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Citadines TST Management's financial performance. These risks include credit risk, liquidity risk, price risk and foreign currency risk.

*(a) Credit risk*

Citadines TST Management's maximum exposure to credit risk which will cause a financial loss to Citadines TST Management due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the management of Citadines TST Management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, Citadines TST Management reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Citadines TST Management consider that Citadines TST Management's credit risk is significantly reduced.

*(b) Liquidity risk*

Citadines TST Management manages its liquidity risk by ensuring it has sufficient liquid cash balances to meet its payment obligations as they fall due.

Citadines TST Management closely monitors its exposure to liquidity risk by reviewing the cash position report monthly. Citadines TST Management mainly relies on cash inflow from provision of management services to fund its operations. Citadines TST Management has sufficient cash on hand and also has alternative plans to monitor liquidity risk should there be significant adverse changes on Citadines TST Management's cash flow projections.

The following tables detail Citadines TST Management's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which Citadines TST Management can be required to pay. The tables include both interest and principal cash flows.

	Within 1 year <i>HK\$'000</i>	Within 2 to 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total undiscounted cash flow <i>HK\$'000</i>	Total carrying amount <i>HK\$'000</i>
At 31 December 2008					
Accruals and other payables	1,077	—	—	1,077	1,077
Amounts due to fellow subsidiaries	6,686	—	—	6,686	6,686
Amount due to an intermediate holding company	1,000	—	—	1,000	1,000
	<u>8,763</u>	<u>—</u>	<u>—</u>	<u>8,763</u>	<u>8,763</u>
At 31 December 2009					
Accruals and other payables	831	—	—	831	831
Amounts due to fellow subsidiaries	10,537	—	—	10,537	10,537
Amount due to an intermediate holding company	1,000	—	—	1,000	1,000
	<u>12,368</u>	<u>—</u>	<u>—</u>	<u>12,368</u>	<u>12,368</u>
At 31 December 2010					
Accruals and other payables	1,278	—	—	1,278	1,278
Amounts due to fellow subsidiaries	5,339	—	—	5,339	5,339
Amount due to an intermediate holding company	1,000	—	—	1,000	1,000
	<u>7,617</u>	<u>—</u>	<u>—</u>	<u>7,617</u>	<u>7,617</u>
At 30 June 2011					
Accruals and other payables	717	—	—	717	717
Amounts due to fellow subsidiaries	5,020	—	—	5,020	5,020
Amount due to an intermediate holding company	1,000	—	—	1,000	1,000
	<u>6,737</u>	<u>—</u>	<u>—</u>	<u>6,737</u>	<u>6,737</u>

(c) *Price risk*

At the end of the Relevant Periods, Citadines TST Management has no significant exposure to price risk.

(d) *Foreign currency risk*

Citadines TST Management has no significant exposure to foreign currency risk as substantially all of Citadines TST Management's transactions are denominated in Hong Kong dollars.

(e) *Fair value of financial instruments*

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of Citadines TST Management consider that the carrying amounts of financial assets and financial liabilities recognised in the Financial Information approximate to their fair values.

**22. Subsequent events**

No significant events took place subsequent to 30 June 2011.

**C. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared for Citadines TST Management in respect of any period subsequent to 30 June 2011 and no dividends or other distributions have been declared by Citadines TST Management in respect of any period subsequent to 30 June 2011.

Yours faithfully  
**HLB Hodgson Impey Cheng**  
Chartered Accountants  
Certified Public Accountants  
Hong Kong

**A. MANAGEMENT DISCUSSION AND ANALYSIS OF CITADINES ASHLEY TST (HONG KONG) LIMITED**

Set out below is the management discussion and analysis of the Citadines TST for the six months ended 30 June 2011 and each of the three years ended 31 December 2008, 2009 and 2010.

**(I) For the six months period ended 30 June 2011*****Results of operations***

During the period ended 30 June 2011, Citadines TST recorded a revenue of HK\$3,065,000, a 0.81% decrease from HK\$3,090,000 for the previous period.

Profit for the period ended 30 June 2011 amounted to HK\$100,812,000 compared to HK\$2,245,000 for the previous period.

***Liquidity and financial resources***

At 30 June 2011, the cash and cash equivalents of Citadines TST amounted to HK\$1,743,000 (30 June 2010: HK\$910,000). This increase was mainly attributable to increased profitability.

At 30 June 2011, Citadines TST had no external borrowings.

At 30 June 2011, Citadines TST's net current liabilities and current ratio were HK\$183,013,000 (30 June 2010: HK\$188,156,000) and 0.03 (30 June 2010: 0.06) respectively.

***Pledge of assets***

At 30 June 2011, no assets of Citadines TST were pledged.

***Commitments***

At 30 June 2011, Citadines TST had no material commitments.



***Exchange risk and hedging***

During the period ended 30 June 2011, the majority of Citadines TST's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by Citadines TST.

***Contingent liabilities***

At 30 June 2011, Citadines TST had no material contingent liabilities.

***Employees and remuneration policy***

At 30 June 2011, the headcount of Citadines TST was zero (2010: zero).

***One Material Contract***

Unsecured interest-free loan provided by Ascott Holdings to Citadines TST which principal amount was HK\$187,362,000 as at 30 June 2011.

**(II) For the year ended 31 December 2010*****Results of operations***

During the year ended 31 December 2010, Citadines TST recorded a revenue of HK\$6,183,000, a 5.96% increase from HK\$5,835,000 for the previous year.

Profit for the year ended 31 December 2010 amounted to HK\$20,507,000 compared to HK\$2,596,000 for the previous year.

***Liquidity and financial resources***

At 31 December 2010, the cash and cash equivalents of Citadines TST amounted to HK\$729,000 (31 December 2009: HK\$207,000). This increase was mainly attributable to increased profitability.

At 31 December 2010, Citadines TST had no external borrowings.

At 31 December 2010, Citadines TST's net current liabilities and current ratio were HK\$185,571,000 (31 December 2009: HK\$190,701,000) and 0.03 (31 December 2009: 0.05) respectively.

***Pledge of assets***

At 31 December 2010, no assets of Citadines TST were pledged.

***Commitments***

At 31 December 2010, Citadines TST had no material commitments.

***Exchange risk and hedging***

During the year ended 31 December 2010, the majority of Citadines TST's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by Citadines TST.

***Contingent liabilities***

At 31 December 2010, Citadines TST had no material contingent liabilities.

***Employees and remuneration policy***

At 31 December 2010, the headcount of Citadines TST was zero (2009: zero).

***One Material Contract***

Unsecured interest-free loan provided by Ascott Holdings to Citadines TST which principal amount was HK\$190,396,000 as at 31 December 2010.

**(III) For the year ended 31 December 2009*****Results of operations***

During the year ended 31 December 2009, Citadines TST recorded a revenue of HK\$5,835,000, a 9.56% increase from HK\$5,326,000 for the previous year.

Profit for the year ended 31 December 2009 amounted to HK\$2,596,000, whereas a loss of HK\$33,169,000 was recorded for the previous year.

***Liquidity and financial resources***

At 31 December 2009, the cash and cash equivalents of Citadines TST amounted to HK\$207,000 (31 December 2008: HK\$147,000). This increase was mainly attributable to increased profitability.

At 31 December 2009, Citadines TST had no external borrowings.

At 31 December 2009, Citadines TST's net current liabilities and current ratio were HK\$190,701,000 (31 December 2008: HK\$195,377,000) and 0.05 (31 December 2008: 0.03) respectively.

***Pledge of assets***

At 31 December 2009, no assets of Citadines TST were pledged.

***Commitments***

At 31 December 2009, Citadines TST had no material commitments.

***Exchange risk and hedging***

During the year ended 31 December 2009, the majority of Citadines TST's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by Citadines TST.

*Contingent liabilities*

At 31 December 2009, Citadines TST had no material contingent liabilities.

*Employees and remuneration policy*

At 31 December 2009, the headcount of Citadines TST was zero (2008: zero).

*One Material Contract*

Unsecured interest-free loan provided by Ascott Holdings to Citadines TST which principal amount was HK\$198,069,000 as at 31 December 2009.

**(IV) For the year ended 31 December 2008***Results of operations*

During the year ended 31 December 2008, Citadines TST recorded a revenue of HK\$5,326,000, a 0.84% decrease from HK\$5,371,000 for the previous year.

Loss for the year ended 31 December 2008 amounted to HK\$33,169,000, whereas a profit of HK\$6,677,000 was recorded for the previous year.

*Liquidity and financial resources*

At 31 December 2008, the cash and cash equivalents of Citadines TST amounted to HK\$147,000 (31 December 2007: HK\$701,000). This decrease was mainly attributable to repayment of amount due to intermediate holding company.

At 31 December 2008, Citadines TST had no external borrowings.

At 31 December 2008, Citadines TST's net current liabilities and current ratio were HK\$195,377,000 (31 December 2007: HK\$196,204,000) and 0.03 (31 December 2007: 0.02) respectively.

***Pledge of assets***

At 31 December 2008, no assets of Citadines TST were pledged.

***Commitments***

At 31 December 2008, Citadines TST had no material commitments.

***Exchange risk and hedging***

During the year ended 31 December 2008, the majority of Citadines TST's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by Citadines TST.

***Contingent liabilities***

At 31 December 2008, Citadines TST had no material contingent liabilities.

***Employees and remuneration policy***

At 31 December 2008, the headcount of Citadines TST was zero (2007: zero).

***One Material Contract***

Unsecured interest-free loan provided by Ascott Holdings to Citadines TST which principal amount was HK\$198,069,000 as at 31 December 2008.

**B. MANAGEMENT DISCUSSION AND ANALYSIS OF CITADINES ASHLEY  
TST MANAGEMENT (HONG KONG) LIMITED**

Set out below is the management discussion and analysis of the Citadines TST Management for the six months ended 30 June 2011 and each of the three years ended 31 December 2008, 2009 and 2010.

**(I) For the six months ended 30 June 2011*****Results of operations***

During the period ended 30 June 2011, Citadines TST Management recorded a revenue of HK\$6,364,000, a 26.92% increase from HK\$5,014,000 for the previous period.

Profit for the period ended 30 June 2011 amounted to HK\$1,396,000, whereas a loss of HK\$90,000 was recorded for the previous period.

***Liquidity and financial resources***

At 30 June 2011, the cash and cash equivalents of Citadines TST Management amounted to HK\$4,473,000 (30 June 2010: HK\$8,915,000). This decrease was mainly attributable to repayment of amounts due to fellow subsidiaries.

At 30 June 2011, Citadines TST Management had no external borrowings.

At 30 June 2011, Citadines TST Management's net current liabilities and current ratio were HK\$1,215,000 (30 June 2010: HK\$3,141,000) and 0.82 (30 June 2010: 0.76) respectively.

***Pledge of assets***

At 30 June 2011, no assets of Citadines TST Management were pledged.

***Commitments***

At 30 June 2011, Citadines TST Management had no material commitments.

***Exchange risk and hedging***

During the period ended 30 June 2011, the majority of Citadines TST Management's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by Citadines TST Management.

***Contingent liabilities***

At 30 June 2011, Citadines TST Management had no material contingent liabilities.

***Employees and remuneration policy***

At 30 June 2011, the headcount of Citadines TST Management was 13 (2010: 13). Staff costs (including directors' remuneration) amounted to HK\$1,344,000 (2010: HK\$1,299,000). In addition to basic salaries, staff receive provident fund, discretionary bonus and are enrolled in a medical scheme.

***One Material Contract***

Unsecured interest-free loan provided by Ascott Holdings to Citadines TST Management which principal amount was HK\$1,000,000 as at 30 June 2011.

**(II) For the year ended 31 December 2010*****Results of operations***

During the year ended 31 December 2010, Citadines TST Management recorded a revenue of HK\$10,845,000, a 32.74% increase from HK\$8,170,000 for the previous year.

Profit for the year ended 31 December 2010 amounted to HK\$440,000, whereas a loss of HK\$1,395,000 was recorded for the previous year.

***Liquidity and financial resources***

At 31 December 2010, the cash and cash equivalents of Citadines TST Management amounted to HK\$4,173,000 (31 December 2009: HK\$8,738,000). This decrease was mainly attributable to repayment of amounts due to fellow subsidiaries.

At 31 December 2010, Citadines TST Management had no external borrowings.

At 31 December 2010, Citadines TST Management's net current liabilities and current ratio were HK\$2,611,000 (31 December 2009: HK\$3,051,000) and 0.66 (31 December 2009: 0.75) respectively.

***Pledge of assets***

At 31 December 2010, no assets of Citadines TST Management were pledged.

***Commitments***

At 31 December 2010, Citadines TST Management had no material commitments.

***Exchange risk and hedging***

During the year ended 31 December 2010, the majority of Citadines TST Management's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by Citadines TST Management.

***Contingent liabilities***

At 31 December 2010, Citadines TST Management had no material contingent liabilities.



***Employees and remuneration policy***

At 31 December 2010, the headcount of Citadines TST Management was 13 (2009: 13). Staff costs (including directors' remuneration) amounted to HK\$2,594,000 (2009: HK\$2,303,000). In addition to basic salaries, staff receive provident fund, discretionary bonus and are enrolled in a medical scheme.

***One Material Contract***

Unsecured interest-free loan provided by Ascott Holdings to Citadines TST Management which principal amount was HK\$1,000,000 as at 31 December 2010.

**(III) For the year ended 31 December 2009*****Results of operations***

During the year ended 31 December 2009, Citadines TST Management recorded a revenue of HK\$8,170,000, a 24.37% decrease from HK\$10,803,000 for the previous year.

Loss for the year ended 31 December 2009 amounted to HK\$1,395,000, whereas a profit of HK\$1,104,000 was recorded for the previous year.

***Liquidity and financial resources***

At 31 December 2009, the cash and cash equivalents of Citadines TST Management amounted to HK\$8,738,000 (31 December 2008: HK\$6,309,000). This increase was mainly attributable to increase in amounts due to fellow subsidiaries.

At 31 December 2009, Citadines TST Management had no external borrowings.

At 31 December 2009, Citadines TST Management's net current liabilities and current ratio were HK\$3,051,000 (31 December 2008: HK\$1,656,000) and 0.75 (31 December 2008: 0.81) respectively.

***Pledge of assets***

At 31 December 2009, no assets of Citadines TST Management were pledged.

***Commitments***

At 31 December 2009, Citadines TST Management had no material commitments.

***Exchange risk and hedging***

During the year ended 31 December 2009, the majority of Citadines TST Management's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by Citadines TST Management.

***Contingent liabilities***

At 31 December 2009, Citadines TST Management had no material contingent liabilities.

***Employees and remuneration policy***

At 31 December 2009, the headcount of Citadines TST Management was 13 (2008: 13). Staff costs (including directors' remuneration) amounted to HK\$2,303,000 (2008: HK\$2,386,000). In addition to basic salaries, staff receive provident fund, discretionary bonus and are enrolled in a medical scheme.

***One Material Contract***

Unsecured interest-free loan provided by Ascott Holdings to Citadines TST Management which principal amount was HK\$1,000,000 as at 31 December 2009.

**(IV) For the year ended 31 December 2008*****Results of operations***

During the year ended 31 December 2008, Citadines TST Management recorded a revenue of HK\$10,803,000, a 44.00% increase from HK\$7,502,000 for the previous year.

Profit for the year ended 31 December 2008 amounted to HK\$1,104,000, whereas a loss of HK\$1,860,000 was recorded for the previous year.

***Liquidity and financial resources***

At 31 December 2008, the cash and cash equivalents of Citadines TST Management amounted to HK\$6,309,000 (31 December 2007: HK\$3,207,000). This increase was mainly attributable to increased profitability.

At 31 December 2008, Citadines TST Management had no external borrowings.

At 31 December 2008, Citadines TST Management's net current liabilities and current ratio were HK\$1,656,000 (31 December 2007: HK\$2,760,000) and 0.81 (31 December 2007: 0.59) respectively.

***Pledge of assets***

At 31 December 2008, no assets of Citadines TST Management were pledged.

***Commitments***

At 31 December 2008, Citadines TST Management had no material commitments.

***Exchange risk and hedging***

During the year ended 31 December 2008, the majority of Citadines TST Management's transactions, assets and liabilities are denominated in Hong Kong dollars. Accordingly, no financial instruments for hedging purposes have been used by Citadines TST Management.

***Contingent liabilities***

At 31 December 2008, Citadines TST Management had no material contingent liabilities.

***Employees and remuneration policy***

At 31 December 2008, the headcount of Citadines TST Management was 13 (2007: 13). Staff costs (including directors' remuneration) amounted to HK\$2,386,000 (2007: HK\$2,101,000). In addition to basic salaries, staff receive provident fund, discretionary bonus and are enrolled in a medical scheme.

***One Material Contract***

Unsecured interest-free loan provided by Ascott Holdings to Citadines TST Management which principal amount was HK\$1,000,000 as at 31 December 2008.

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

The accompanying unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of Eternity Investment Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) (the “Unaudited Pro Forma Financial Information”) have been prepared to illustrate the effect of the proposed acquisition of the entire issued share capital of Citadines Ashley TST (Hong Kong) Limited (“Citadines TST”) and Citadines Ashley TST Management (Hong Kong) Limited (“Citadines TST Management”) (collectively referred to as the “Target Companies”) (the “Acquisition”) might have affected the financial information of the Group. The Group immediately after the completion of the Acquisition is referred to as the “Enlarged Group”.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared on the assumptions that the Acquisition has been completed on 31 December 2010 in the case of the unaudited pro forma consolidated statement of financial position, and on 1 January 2010 in the case of the unaudited pro forma consolidated income statement, unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is based on certain assumptions, estimates, uncertainties and other currently available financial information, and is provided for illustrative purposes only because of its hypothetical nature, it may not give a true picture of the actual financial position and financial results of the Enlarged Group’s operations that would have been attained had the Acquisition actually occurred on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group’s future financial position or results of operations.

**(A) Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group**

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group, assuming that the Acquisition has been completed on 31 December 2010. The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, which has been extracted from the annual report of the Group for the year ended 31 December 2010 and the audited statements of financial position of Citadines TST and Citadines TST Management as at 30 June 2011 as set out in Appendixes III and IV to the circular respectively. Such information is adjusted to reflect the effect of the Acquisition.

**I. Unaudited pro forma consolidated statement of financial position**

	The Group at 31 December 2010 HK\$ '000	Citadines TST at 30 June 2011 HK\$ '000	Citadines TST Management at 30 June 2011 HK\$ '000	Sub-total HK\$ '000	Pro forma adjustments HK\$ '000	Notes	The Enlarged Group HK\$ '000
<b>ASSETS</b>							
<b>Non-current assets</b>							
Investment properties	—	300,000	—	300,000	(203,250)	4(i)	96,750
Property, plant and equipment	1,441	477	—	1,918	203,250	4(i)	205,168
Goodwill	—	—	—	—			—
Intangible assets	334,681	—	—	334,681			334,681
Available-for-sale financial assets	53,892	—	—	53,892			53,892
	<u>390,014</u>	<u>300,477</u>	<u>—</u>	<u>690,491</u>			<u>690,491</u>
<b>Current assets</b>							
Trade receivables	5,859	76	133	6,068			6,068
Deposits, prepayments and other receivables	2,456	66	416	2,938	513	7	3,451
Financial assets at fair value through profit or loss	9,418	—	—	9,418			9,418
Amounts due from fellow subsidiaries	—	3,763	500	4,263	(3,750) (513)	6 7	—
Tax recoverable	32	—	—	32			32
Cash and cash equivalents	989,625	1,743	4,473	995,841	(283,000) (1,000)	1 8	711,841
	<u>1,007,390</u>	<u>5,648</u>	<u>5,522</u>	<u>1,018,560</u>			<u>730,810</u>
<b>Total assets</b>	<u><u>1,397,404</u></u>	<u><u>306,125</u></u>	<u><u>5,522</u></u>	<u><u>1,709,051</u></u>			<u><u>1,421,301</u></u>

	The Group at 31 December 2010 <i>HKS'000</i>	Citadines TST at 30 June 2011 <i>HKS'000</i>	Citadines TST Management at 30 June 2011 <i>HKS'000</i>	Sub-total <i>HKS'000</i>	Pro forma adjustments <i>HKS'000</i>	Notes	The Enlarged Group <i>HKS'000</i>
<b>EQUITY</b>							
<b>Capital and reserves attributable to owners of the Company</b>							
Share capital	11,021	—	—	11,021	—	2	11,021
					(98,458)	2	
					14,292	5	
Reserves	1,333,642	99,673	(1,215)	1,432,100	(1,000)	8	1,346,934
Total equity	<u>1,344,663</u>	<u>99,673</u>	<u>(1,215)</u>	<u>1,443,121</u>			<u>1,357,955</u>
<b>LIABILITIES</b>							
<b>Current liabilities</b>							
Accruals and other payables	10,872	866	717	12,455	1,270	7	13,725
Trade deposits received	477	—	—	477			477
Amounts due to fellow subsidiaries	—	—	5,020	5,020	(3,750)	6	—
					(1,270)	7	—
Amount due to an intermediate holding company	—	187,362	1,000	188,362	(188,362)	3	—
Tax payable	1,230	433	—	1,663			1,663
	<u>12,579</u>	<u>188,661</u>	<u>6,737</u>	<u>207,977</u>			<u>15,865</u>
<b>Non-current liability</b>							
Deferred taxation	40,162	17,791	—	57,953	(10,472)	4(ii)	47,481
Total liabilities	<u>52,741</u>	<u>206,452</u>	<u>6,737</u>	<u>265,930</u>			<u>63,346</u>
Total equity and liabilities	<u>1,397,404</u>	<u>306,125</u>	<u>5,522</u>	<u>1,709,051</u>			<u>1,421,301</u>
Net current assets/(liabilities)	<u>994,811</u>	<u>(183,013)</u>	<u>(1,215)</u>	<u>810,583</u>			<u>714,945</u>
Total assets less current liabilities	<u>1,384,825</u>	<u>117,464</u>	<u>(1,215)</u>	<u>1,501,074</u>			<u>1,405,436</u>

*II. Notes to the unaudited pro forma consolidated statement of financial position*

1. The pro forma adjustment represents the cash consideration to be paid for the Acquisition amounted to HK\$283,000,000, which is subject to adjust upward or downward by the net current asset as at the date of the completion, provided that the consideration shall in no event be higher than HK\$290,000,000. For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, it is assumed that the date of the completion would be 31 December 2010. There is no adjustment on the consideration after taking into account of audited financial statements of the Target Companies as at 30 June 2011.
2. The pro forma adjustment represents the elimination of pre-acquisition reserve and share capital of Citadines TST of approximately HK\$99,673,000 and HK\$1 respectively and Citadines TST Management of approximately HK\$1,215,000 (accumulated losses) and HK\$1 respectively upon the consolidation of the Unaudited Pro Forma Financial Information of the Enlarged Group.
3. The pro forma adjustment represents the assignment of Intermediate Holding Company Loans owing by the Target Companies to the Vendor.
4. In accordance with Hong Kong Accounting Standard 40 “Investment Property”, if an entity owns and manages a hotel and services provided to guests are significant to the arrangement as a whole, the owner-managed hotel is classified as owner-occupied property, rather than investment property. The Serviced Apartments Portion has to be classified as property, plant and equipment upon the consolidation of the Unaudited Pro Forma Financial Information of the Enlarged Group. The fair value of the Serviced Apartments Portion and the Retails Portion at 30 June 2011 are approximately HK\$203,250,000 and HK\$96,750,000 respectively which based on valuation report carried out on that date by Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected to the Enlarged Group.

The pro forma adjustment represents:

- (i) reclassification of the Serviced Apartments Portion from investment properties to property, plant and equipment by approximately HK\$203,250,000; and
- (ii) reversal of deferred tax liabilities being recognised by approximately HK\$10,472,000 representing the Serviced Apartments Portion.



5. The pro forma adjustment represents the calculation of gain from a bargain purchase under the acquisition in accordance with Hong Kong Financial Reporting Standard 3 “Business Combinations” (Revised 2008) to account for the Acquisition as following:

	<b>At 30 June 2011 HK\$'000</b>
Net assets of Citadines TST	99,673
Net liabilities of Citadines TST Management	(1,215)
Assignment of Intermediate Holding Company Loans:	
Citadines TST	187,362
Citadines TST Management	1,000
Release on deferred tax liabilities due to reclassify of Serviced Apartments Portion from investment properties to property, plant and equipment ( <i>see Note 4 above</i> )	10,472
	297,292
Gain from a bargain purchase	(14,292)
Total consideration	283,000

For the purpose of the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the fair values of the identifiable assets and liabilities of the Target Companies are assumed to be equal to their carrying amounts as at 30 June 2011. The fair values of the assets and liabilities at the completion date of the Acquisition will be assessed upon the completion of the Acquisition and will be different, and accordingly, the amount of gain from a bargain purchase to be recognised is subject to change.

6. The pro forma adjustment represents the elimination of inter-companies balances between Citadines TST and Citadines TST Management upon the consolidation of the Unaudited Pro Forma Financial Information of the Enlarged Group.
7. The pro forma adjustment represents the reallocation of amounts due from/to companies related to the Vendor to other receivables/payables.
8. The pro forma adjustment represents the estimated professional fees and expenses attributable to the Acquisition amounting to approximately HK\$1,000,000.
9. On 15 August 2011, the open offer of 6,611,960,980 new shares to the qualifying shareholders of the Company on the basis of five new shares for every one existing share held on 25 July 2011 at HK\$0.04 per new share was completed. The effects of the open offer are not included in the Unaudited Pro Forma Financial Information of the Enlarge Group as they are not directly related to the Acquisition.

**(B) Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group**

The following is the unaudited pro forma consolidated income statement of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2010. The unaudited pro forma consolidated income statement of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, which has been extracted from the annual report of the Group for the year ended 31 December 2010 and the audited statements of comprehensive income of Citadines TST and Citadines TST Management for the year ended 31 December 2010 as set out in Appendixes III and IV to the circular respectively. Such information is adjusted to reflect the effect of the Acquisition.

**I. Unaudited pro forma consolidated income statement**

	The Group for the year ended 31 December 2010 HK\$'000	Citadines TST for the year ended 31 December 2010 HK\$'000	Citadines TST Management for the year ended 31 December 2010 HK\$'000	Sub-total HK\$'000	Pro forma adjustments HK\$'000	Notes	The Enlarged Group HK\$'000
Turnover	78,200	6,183	10,845	95,228	(4,500)	12	90,728
Cost of sales	(632)	—	(8,667)	(9,299)	4,500	12	(4,799)
Gross profit	77,568	6,183	2,178	85,929			85,929
Other revenue and other income	17,346	—	—	17,346			17,346
Marketing expenses	—	—	(226)	(226)			(226)
Other operating expenses	—	(134)	—	(134)			(134)
Administrative expenses	(14,366)	(507)	(1,512)	(16,385)	(1,000)	10	(21,016)
Impairment loss recognised in respect of intangible assets	(4,856)	—	—	(4,856)	(3,631)	11(iii)	(4,856)
Loss on losing significant influence of an associate	(21,028)	—	—	(21,028)			(21,028)
Loss on deemed disposal of an associate	(537,615)	—	—	(537,615)			(537,615)
Share of results of associates	(9,371)	—	—	(9,371)			(9,371)
Gain on early repayment of promissory note receivables	64,627	—	—	64,627			64,627
Gain on early repayment of convertible notes receivable	75,962	—	—	75,962			75,962
Gain on disposal of available-for- sale financial assets	7,579	—	—	7,579			7,579
Loss arising on change in fair value of available-for-sale financial assets	(14,280)	—	—	(14,280)			(14,280)

	The Group for the year ended 31 December 2010 HK\$'000	Citadines TST for the year ended 31 December 2010 HK\$'000	Citadines TST Management for the year ended 31 December 2010 HK\$'000	Sub-total HK\$'000	Pro forma adjustments HK\$'000	Notes	The Enlarged Group HK\$'000
Gain arising on change in fair value of investment properties	—	18,869	—	18,869	(12,910)	11(i)	5,959
Gain arising on change in fair value of financial assets at fair value through profit or loss	4,918	—	—	4,918			4,918
Gain/(loss) arising on change in fair value of conversion options embedded in convertible notes receivable	1,525	—	—	1,525			1,525
Loss on early redemption of convertible notes payables	(1,062)	—	—	(1,062)			(1,062)
(Loss)/profit from operations	(353,053)	24,411	440	(328,202)			(345,743)
Finance costs	(3,041)	—	—	(3,041)			(3,041)
(Loss)/profit before taxation	(356,094)	24,411	440	(331,243)			(348,784)
Income tax expense	(363)	(3,904)	—	(4,267)	2,145	11(ii)	(2,122)
(Loss)/profit for the year	<u>(356,457)</u>	<u>20,507</u>	<u>440</u>	<u>(335,510)</u>			<u>(350,906)</u>
(Loss)/profit for the year attributable to owners of the Company	<u>(356,457)</u>	<u>20,507</u>	<u>440</u>	<u>(335,510)</u>			<u>(350,906)</u>

## II. Notes to the unaudited pro forma consolidated income statement

10. The pro forma adjustment represents the professional fees and expenses attributable to the Acquisition amounting to approximately HK\$1,000,000. The adjustment has no continuing financial effect.
11. Due to the Serviced Apartments Portion has to be reclassified from investment properties to property, plant and equipment (see Note 4 above), as if the Acquisition has been completed on 1 January 2010, the following pro forma adjustment with continuing financial effect have to be provided:
- reversal of gain arising on change in fair value of investment properties of approximately HK\$12,910,000 representing the fair value gain on the Serviced Apartments Portion recognised during the year ended 31 December 2010;
  - reversal of deferred tax liabilities expenses of approximately HK\$2,145,000 representing the fair value gain on the Serviced Apartments Portion recognised during the year ended 31 December 2010; and

- (iii) recognition of depreciation expenses on the addition of property, plant and equipment of approximately HK\$3,631,000 calculated by the cost of the property, plant and equipment of approximately HK\$118,000,000 representing the Retails Portion at 1 January 2010 and depreciated over the unexpired period of the lease of land for 32.5 years.

The fair value of the Serviced Apartments Portion and the Retails Portion at 1 January 2010 are approximately HK\$118,000,000 and HK\$45,000,000 respectively which based on valuation report carried out on that date by DTZ Debenham Tie Leung Limited, an independent qualified professional valuer not connected to the Enlarged Group.

12. The pro forma adjustment represents the elimination of inter-companies sale and cost of sales amounted to HK\$4,500,000 between Citadines TST and Citadines TST Management. The adjustment has continuing financial effect.
13. As if the Acquisition was completed on 1 January 2010, there would be a goodwill arising from the Acquisition instead of the gain from a bargain purchase as stated in Note 5 above.

For the purpose of the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group in accordance with the requirements of Hong Kong Accounting Standard 36 “Impairment of Assets”, the directors of the Company consider that no impairment is required in respect of the goodwill arising from the Acquisition taking into account the business potential of the Target Companies and other factors as disclosed in the paragraph headed “Reasons for the Acquisition” in the “Letter from the Board” in the circular. The reporting accountants concurred with the directors’ assessment of impairment of goodwill in the Unaudited Pro Forma Financial Information of the Enlarged Group and adoption of consistent accounting policies and principal assumptions in the preparation of the consolidated financial statements of the Enlarged Group after the completion of the Acquisition. After the completion of the Acquisition, the Enlarged Group will perform annual impairment test for the cash-generating unit to which the goodwill has been allocated in accordance with the Company’s accounting policies and the requirements of Hong Kong Accounting Standard 36 “Impairment of Assets”, and the Company’s auditors will perform audit procedures thereon in respect of their audit of the consolidated financial statements of the Enlarged Group for the next financial year in accordance with the requirements of Hong Kong Accounting Standard 36 “Impairment of Assets”.

**(C) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group**

The following is the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2010. The unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, which has been extracted from the annual report of the Group for the year ended 31 December 2010 and the audited statements of comprehensive income of Citadines TST and Citadines TST Management for the year ended 31 December 2010 as set out in Appendixes III and IV to the circular respectively. Such information is adjusted to reflect the effect of the Acquisition.

**I. Unaudited pro forma consolidated statement of comprehensive income**

	The Group for the year ended 31 December 2010 <i>HK\$ '000</i>	Citadines TST for the year ended 31 December 2010 <i>HK\$ '000</i>	Citadines TST Management for the year ended 31 December 2010 <i>HK\$ '000</i>	Sub-total <i>HK\$ '000</i>	Pro forma adjustments <i>HK\$ '000</i>	Notes	The Enlarged Group <i>HK\$ '000</i>
(Loss)/profit for the year	(356,457)	20,507	440	(335,510)	(3,631)	11(iii)	(350,906)
Other comprehensive income for the year (after tax):					(1,000)	10	
Share of exchange reserve change of associate	(83)	—	—	(83)	(12,910)	11(i)	
					2,145	11(ii)	
Total comprehensive (loss)/ income for the year	<u>(356,540)</u>	<u>20,507</u>	<u>440</u>	<u>(335,593)</u>			<u>(350,989)</u>
Attributable to owners of the Company	<u>(356,540)</u>	<u>20,507</u>	<u>440</u>	<u>(335,593)</u>			<u>(350,989)</u>

**(D) Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group**

The following is the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, assuming that the Acquisition has been completed on 1 January 2010. The unaudited pro forma consolidated statement of cash flows of the Enlarged Group is prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2010, which has been extracted from the annual report of the Group for the year ended 31 December 2010 and the audited statements of cash flows of Citadines TST and Citadines TST Management for the year ended 31 December 2010 as set out in Appendixes III and IV to the circular respectively. Such information is adjusted to reflect the effect of the Acquisition.

**I. Unaudited pro forma consolidated statement of cash flows**

	The Group for the year ended 31 December 2010 <i>HK\$'000</i>	Citadines TST for the year ended 31 December 2010 <i>HK\$'000</i>	Citadines TST Management for the year ended 31 December 2010 <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Pro forma adjustments <i>HK\$'000</i>	Notes	The Enlarged Group <i>HK\$'000</i>
OPERATING ACTIVITIES							
					(1,000)	10	
					(12,910)	11(i)	
(Loss)/profit before taxation	(356,094)	24,411	440	(331,243)	(3,631)	11(iii)	(348,784)
<i>Adjustments for:</i>							
Depreciation of property, plant and equipment	423	142	—	565	3,631	11(iii)	4,196
Finance costs	3,041	—	—	3,041			3,041
Gain arising on early repayment of promissory note receivable	(64,627)	—	—	(64,627)			(64,627)
Gain arising on early repayment of convertible notes receivable	(75,962)	—	—	(75,962)			(75,962)
Gain on disposal of available- for-sale financial assets	(7,579)	—	—	(7,579)			(7,579)
Interest income	(7,039)	—	—	(7,039)			(7,039)
Impairment loss recognised in respect of intangible assets	4,856	—	—	4,856			4,856
Gain arising on change in fair value of investment properties	—	(18,869)	—	(18,869)	12,910	11(i)	(5,959)
Loss arising on change in fair value of available-for-sale financial assets	14,280	—	—	14,280			14,280
Gain arising on change in fair value of conversion options embedded in convertible notes receivable	(1,525)	—	—	(1,525)			(1,525)

	The Group for the year ended 31 December 2010 <i>HK\$ '000</i>	Citadines TST for the year ended 31 December 2010 <i>HK\$ '000</i>	Citadines TST Management for the year ended 31 December 2010 <i>HK\$ '000</i>	Sub-total <i>HK\$ '000</i>	Pro forma adjustments <i>HK\$ '000</i>	Notes	The Enlarged Group <i>HK\$ '000</i>
Gain arising on change in fair value of financial assets at fair value through profit or loss	(4,918)	—	—	(4,918)			(4,918)
Loss on early redemption of convertible notes payable	1,062	—	—	1,062			1,062
Loss on losing significant influence of an associate	21,028	—	—	21,028			21,028
Loss on deemed disposal of an associate	537,615	—	—	537,615			537,615
Share of results of associates	9,371	—	—	9,371			9,371
Share-based payment expenses	2,310	—	—	2,310			2,310
Operating cash flows before movements in working capital	76,242	5,684	440	82,366			81,366
Decrease/(increase) in trade receivables	163	(94)	141	210			210
Increase in deposits, prepayments and other receivables	(1,441)	—	(4)	(1,445)	1,685	17	240
Increase/(decrease) in accruals and other payables	672	(286)	447	833	(7,673)	15	(9,931)
Decrease/(increase) in amounts due from fellow subsidiary	—	4,205	(391)	3,814	(3,091)	17	—
Decrease in amounts due to fellow subsidiaries	—	(22)	(5,198)	(5,220)	(2,129)	16	—
Decrease in amounts due to an intermediate holding company	—	(7,673)	—	(7,673)	3,091	17	—
Cash generated from/(used in) operations	75,636	1,814	(4,565)	72,885	7,673	15	71,885
Tax paid	(64)	(1,056)	—	(1,120)			(1,120)
Net cash generated from/(used in) operating activities	75,572	758	(4,565)	71,765			70,765
INVESTING ACTIVITIES							
Interest received	2,992	—	—	2,992			2,992
Interest paid	(2,042)	—	—	(2,042)			(2,042)

	The	Citadines		Sub-total	Pro forma adjustments	Notes	The Enlarged Group
	Group for the year ended 31 December 2010	Citadines TST for the year ended 31 December 2010	TST Management for the year ended 31 December 2010				
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000		HK\$ '000
Repayment from loan to an associate	155,536	—	—	155,536			155,536
Repayment of amount due from an associate	5,103	—	—	5,103			5,103
Repayment of convertible notes payable	(72,000)	—	—	(72,000)			(72,000)
Proceeds from disposal of available-for-sale financial assets	21,572	—	—	21,572			21,572
Proceeds from disposal of financial assets at fair value through profit or loss	5,931	—	—	5,931			5,931
Acquisition of financial assets at fair value through profit loss	(6,453)	—	—	(6,453)			(6,453)
Acquisition of subsidiaries	—	—	—	—	(274,055)	14	(274,055)
Addition of investment properties	—	(131)	—	(131)			(131)
Purchase of property, plant and equipment	(26)	(105)	—	(131)			(131)
Net cash generated from/(used in) investing activities	110,613	(236)	—	110,377			(163,678)
<b>FINANCING ACTIVITIES</b>							
Issuance of new shares, rights shares and exercise of share options	360,701	—	—	360,701			360,701
Repayment of promissory note receivable	100,000	—	—	100,000			100,000
Repayment of convertible notes Receivable	100,000	—	—	100,000			100,000
Dividend paid to owners of the Company	(33,063)	—	—	(33,063)			(33,063)
Net cash generated from financing activities	527,638	—	—	527,638			527,638
Net increase/(decrease) in cash and cash equivalents	713,823	522	(4,565)	709,780			434,725



	The Group for the year ended 31 December 2010 <i>HK\$ '000</i>	Citadines TST for the year ended 31 December 2010 <i>HK\$ '000</i>	Citadines TST Management for the year ended 31 December 2010 <i>HK\$ '000</i>	Sub-total <i>HK\$ '000</i>	Pro forma adjustments <i>HK\$ '000</i>	<i>Notes</i>	The Enlarged Group <i>HK\$ '000</i>
Cash and cash equivalents at beginning of year	275,802	207	8,738	284,747	(8,945)	14	275,802
Cash and cash equivalents at end of year	<u>989,625</u>	<u>729</u>	<u>4,173</u>	<u>994,527</u>			<u>710,527</u>
Analysis of the balances of cash and cash equivalents							
Included in cash and cash equivalents	<u>989,625</u>	<u>729</u>	<u>4,173</u>	<u>994,527</u>	(1,000) (283,000)	10 14	<u>710,527</u>

## ***II. Notes to the unaudited pro forma consolidated statement of cash flows***

14. The pro forma adjustment represents the net cash outflow as if the Acquisition has been completed at 1 January 2010:

	<i>HK\$ '000</i>
Cash consideration	283,000
Cash and cash equivalents at 1 January 2010:	
Citadines TST	(207)
Citadines TST Management	(8,738)
	<u>274,055</u>

The adjustment has no continuing financial effect.

15. The pro forma adjustment represents the assignment of Intermediate Holding Company Loans owned by the Target Companies to the Vendor. The adjustment has no continuing financial effect.
16. The pro forma adjustment represents the elimination of the inter-company balances between Citadines TST and Citadines TST Management upon the consolidation of the Unaudited Pro Forma Financial Information of the Enlarged Group. The adjustment has no continuing financial effect.
17. The pro forma adjustment represents the reallocation of amounts due from/to companies related to the Vendor to other receivables/payables. The adjustment has no continuing financial effect.

*The following is the text of the report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this appendix.*



Chartered Accountants  
Certified Public Accountants

31/F Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

17 October 2011

The Directors  
Eternity Investment Limited  
Unit 3811, 38/F., Shun Tak Centre, West Tower  
168-200 Connaught Road Central  
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Eternity Investment Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), and Citadines Ashley TST (Hong Kong) Limited and Citadines Ashley TST Management (Hong Kong) Limited (hereinafter collectively referred to as the “Target Companies”) (together with the Group, hereinafter collectively referred to as the “Enlarged Group”) set out in Appendix VI on pages 155 to 167 of the circular dated 17 October 2011 (the “Circular”) under the headings of “Unaudited Pro Forma Financial Information of the Enlarged Group” (the “Unaudited Pro Forma Financial Information”) in connection with the proposed acquisition of the entire issued share capital of the Target Companies (the “Acquisition”). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition, which will result in the formation of the Enlarged Group, might have affected the relevant financial information presented for inclusion in Appendix VI of the Circular.

**Respective responsibilities of the directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely 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 judgments and assumptions made by 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 2010 or any future date; or
- the results and cash flows of the Enlarged Group for the year ended 31 December 2010 or any future periods.

**Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully

**HLB Hodgson Impey Cheng**

Chartered Accountants

Certified Public Accountants

Hong Kong

**GRANT SHERMAN APPRAISAL LIMITED**

Room 1701 on 17/F Jubilee Centre  
18 Fenwick Street  
Wanchai  
Hong Kong

17 October 2011

The Directors  
Eternity Investment Limited  
Unit 3811 Shun Tak Centre, West Tower  
168-200 Connaught Road Central  
Hong Kong

Dear Sirs,

In accordance with the instructions from to value the property interests to be acquired by Eternity Investment Limited (“the Company”) or its subsidiaries (together referred to as “the Group”) located in Hong Kong, we confirm that we have carried out inspection, 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 such interests as at 31 July 2011 (the “Valuation Date”).

Our valuation is our opinion of 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.”

We have valued the property interests by direct comparison approach assuming sale in their existing state with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors.

Our valuation has been made on the assumption that the owner sells the property on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the property value.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have assumed that all consents, approvals and licenses from relevant government authorities for the property have been granted or can be obtained and renewed without any onerous conditions or undue time delay which might affect its value.

We have caused searches to be made at the Land Registry regarding the title of the property, however, we have not scrutinized the original title documents. We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on matters such as property title, statutory notices, easements, tenure, occupancy, site area, progress on works, settlement of land acquisition costs and in the identification of the appraised property. We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We have relied on the Company's confirmation that no material fact has been omitted from the information so supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interiors of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuations. No structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structures which were covered, unexposed or inaccessible.

Unless otherwise stated, all sums stated in our valuation are in Hong Kong dollars.

We enclose herewith our valuation certificate.

Respectfully submitted,

For and on behalf of

**GRANT SHERMAN APPRAISAL LIMITED**

**Peggy Y.Y. Lai**

*MRICS MHKIS RPS(GP)*

*Director*

*Real Estate Group*

*Note:* Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

## VALUATION CERTIFICATE

## Property interests to be acquired by the Group in Hong Kong for investment purpose

Property	Description and tenure	Particular of occupancy	Market Value as at 31 July 2011														
1. Whole block of “Citadines Ashley Hong Kong” No. 18 Ashley Road Tsimshatsui Kowloon Hong Kong erected on Kowloon Inland Lot No. 9613	The property comprises whole block of a 20-storey composite building with a total gross floor area of about 28,338 sq.ft.. It was completed in about 1998.  Ground floor to the 3rd floor is designated for shop and retail purpose. The upper floors were used as serviced apartments with 36 units. The area breakdown of the property are listed as follows:	As advised by the Company, the property is subject to various tenancies. <i>see notes (3) to (7)</i>	HK\$300,000,000														
	<table border="1"> <thead> <tr> <th>Usage</th> <th>Approximate gross floor area (sq.ft.)</th> </tr> </thead> <tbody> <tr> <td>G/F (Shop and lift lobby)</td> <td>1,138</td> </tr> <tr> <td>1/F (retail)</td> <td>1,448 (plus 75 flat roof)</td> </tr> <tr> <td>2/F, 3/F (retail)</td> <td>2,904</td> </tr> <tr> <td>5/F (Management Office an 1 suite)</td> <td>1,428 (plus 43 flat roof)</td> </tr> <tr> <td>6/F to 13/F, 15/F to 21/F (Service apartment)</td> <td>21,420</td> </tr> <tr> <td><b>Total</b></td> <td><b>28,338</b></td> </tr> </tbody> </table>	Usage	Approximate gross floor area (sq.ft.)	G/F (Shop and lift lobby)	1,138	1/F (retail)	1,448 (plus 75 flat roof)	2/F, 3/F (retail)	2,904	5/F (Management Office an 1 suite)	1,428 (plus 43 flat roof)	6/F to 13/F, 15/F to 21/F (Service apartment)	21,420	<b>Total</b>	<b>28,338</b>		
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G/F (Shop and lift lobby)	1,138																
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5/F (Management Office an 1 suite)	1,428 (plus 43 flat roof)																
6/F to 13/F, 15/F to 21/F (Service apartment)	21,420																
<b>Total</b>	<b>28,338</b>																
	The property is held under Conditions of Re-Grant No. UB9518 for a term of 150 years commencing from 24 June 1892.																
	The annual government rent payable for Kowloon Inland Lot No. 9613 is HK\$234.																

*Notes:*

1. The registered owner of the property is Citadines Ashley TST (Hong Kong) Limited, vide Memorial No. UB06071202660128 dated 14 September 2001.
2. According to occupation permit dated 19 May 1998 issued by the Building Authority, 1st floor to 21st floor (without 4th and 14th floors) shall be used for offices and ancillary accommodation for non-domestic use. As advised by the Company, G/F to 3/F are used for retail use while the remaining floors are used as service apartment. As advised by the Company, application to the Buildings Department for such change of use will be made as and when appropriate, We therefore assessed the value of the subject property under the assumption that the existing use is permitted.
3. G/F is subject to a tenancy agreement for a term commencing from 8/10/2010 to 7/10/2012 at a monthly rental of HK\$45,000 exclusive of government rates but inclusive of management fee. The tenant has an option to renew for 2 years at open market rent.
4. 1/F is subject to a tenancy agreement for a term commencing from 12/9/2008 to 11/9/2011 at a monthly rental of HK\$43,000 exclusive of government rates but inclusive of management fee.
5. 2/F is subject to a tenancy agreement for a term commencing from 12/11/2010 to 11/11/2012 at a monthly rental of HK\$36,800 exclusive of government rates but inclusive of management fee. The tenant has an option to renew for one year at open market rent.
6. 3/F is subject to a tenancy agreement for a term commencing from 1/12/2009 to 30/11/2012 at a monthly rental of HK\$33,000 exclusive of government rates but inclusive of management fee. The tenant has an option to renew for 2 years at open market rent.
7. Upper floors is subject to a tenancy agreement for a term commencing from 20/6/2009 to 19/6/2012 at a monthly rental of HK\$375,000 inclusive of government rates and management fee.



## 1. RESPONSIBILITY STATEMENT

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

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

Save as disclosed below, as at the Latest Practicable Date, no Directors or chief executive of the Company had or was deemed to have interests or short positions in Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange:

### Long positions

#### a. *the Shares*

Name of Director	Notes	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Mr. Lei Hong Wai		Beneficial owner	1,321,680,000	16.66%
Mr. Cheung Kwok Fan	1	Held by controlled corporation	636,000,000	8.02%
Mr. Cheung Kwok Wai, Elton	2	Other	636,000,000	8.02%
Mr. Chan Kin Wah, Billy		Beneficial owner	1,320,000	0.02%

Notes:

- Thought Diamond International Limited is wholly owned by Mr. Cheung Kwok Fan.
- Mr. Cheung Kwok Wai, Elton is the eldest brother of Mr. Cheung Kwok Fan. Mr. Cheung Kwok Wai, Elton is deemed to be interested in the Shares held by Thought Diamond International Limited.

*b. the share options*

Name of Director	Capacity	Number of share options held	Number of underlying Shares
Mr. Lei Hong Wai	Beneficial owner	93,965	93,965
Mr. Chan Kin Wah, Billy	Beneficial owner	93,965	93,965

**3. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS**

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

**Long positions***a. the Shares*

Name of Shareholder	Notes	Capacity	Number of issued Shares held	Approximate percentage of the issued share capital of the Company
Mr. Lei Hong Wai		Beneficial owner	1,321,680,000	16.66%
Thought Diamond International Limited	<i>1</i>	Beneficial owner	636,000,000	8.02%
Mr. Cheung Kwok Fan	<i>1</i>	Held by controlled corporation	636,000,000	8.02%

<b>Name of Shareholder</b>	<i>Notes</i>	<b>Capacity</b>	<b>Number of issued Shares held</b>	<b>Approximate percentage of the issued share capital of the Company</b>
Mr. Cheung Kwok Wai, Elton	2	Other	636,000,000	8.02%
Asia Vest Partners VII Limited	3	Held by controlled corporations	1,294,921	9.95%
Asia Vest Partners X Limited	3	Held by controlled corporations	1,294,921	9.95%
Asia Vest Partners Limited	3	Held by controlled corporations	1,294,921	9.95%
Mr. Andrew Nam Sherrill	3	Held by controlled corporations	1,294,921	9.95%

*Notes:*

1. Thought Diamond International Limited is wholly owned by Mr. Cheung Kwok Fan.
2. Mr. Cheung Kwok Wai, Elton is the eldest brother of Mr. Cheung Kwok Fan. Mr. Cheung Kwok Wai, Elton is deemed to be interested in the Shares held by Thought Diamond International Limited.
3. The number of issued Shares held was adjusted for the share consolidations that became effective on 30 April 2008 and 23 April 2009.

*b. the share options*

Name of Shareholder	Capacity	Number of share options held	Number of underlying Shares
Mr. Lei Hong Wai	Beneficial owner	93,965	93,965

**4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS**

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the date of this circular and which was significant in relation to the business of the Group.

None of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2010, being the date to which the latest published audited consolidated accounts of the Group were made up.

**5. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business or interest that competes or may compete with the business of the Group or any other conflicts of interest with the Group.

**6. LITIGATION**

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

**7. SERVICES CONTRACTS**

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

**8. EXPERTS AND CONSENTS**

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

<b>Name</b>	<b>Qualifications</b>
Grant Sherman Appraisal Limited	Property Valuer
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants

Each of Grant Sherman Appraisal Limited and HLB Hodgson Impey Cheng has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, references to its name and/or its advice in the form and context in which it appears.

**9. EXPERTS' INTERESTS IN ASSETS**

As at the Latest Practicable Date, each of Grant Sherman Appraisal Limited and HLB Hodgson Impey Cheng:

- (a) was not interested, either directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2010, being the date to which the latest published audited consolidated accounts of the Group were made up; and
- (b) did not have any shareholding in any member of the 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.

**10. MISCELLANEOUS**

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the head office and principal place of business of the Company is situated at Unit 3811, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong.

- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Standard Limited, having its office situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) Mr. Chan Kin Wah, Billy, the company secretary of the Company, is a member of the Hong Kong Institute of Certified Public Accountants, a CPA member of CPA Australia and a non-practicing member of the Chinese Institute of Certified Public Accountants. He holds a Bachelor of Administration Degree from University of Ottawa in Canada and a Master of Commerce Degree in Professional Accounting from University of New South Wales in Australia.
- (d) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in the case of inconsistency.

## 11. MATERIAL CONTRACTS

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

- (a) the subscription agreement dated 20 November 2009 entered into between the Company and Thought Diamond International Limited. Pursuant to the subscription agreement, the Company has conditionally agreed to allot and issue and Thought Diamond International Limited has conditionally agreed to subscribe for 56,000,000 Shares at the subscription price of HK\$0.5 per Share;
- (b) the sale and purchase agreement dated 31 March 2010 entered into between Riche (BVI) Limited ("**Riche**"), a wholly-owned subsidiary of the Company and Mr. Man Kong Yui in relation to (i) the sale and purchase of 6,750,000 shares with a par value of HK\$1.00 each in the capital of Hantec Holdings Investment Limited for a consideration of HK\$18 million, which shall be settled by Riche procuring the Company to allot and issue 26,420,000 new Shares credited as fully paid to Mr. Man Kong Yui upon completion; and (ii) the granting of a call option by Riche to Mr. Man Kong Yui to acquire the 6,750,000 shares in Hantec Holdings Investment Limited from Riche for a consideration of HK\$21.6 million within one year from the date of completion;
- (c) the joint venture agreement dated 24 June 2010 entered into between Max Winner Investments Limited, a wholly-owned subsidiary of the Company, and Yiu Hing International Limited relating to the formation of a joint venture company engaging in organic agricultural business in the People's Republic of China with a total capital contribution of HK\$60 million;

- (d) the placing agreement dated 12 July 2010 entered into between the Company and Kingston Securities Limited, pursuant to which the Company has conditional by agreed to place, through Kingston Securities Limited on a best effort basis, a maximum of 45,920,000 new Shares to not fewer than six independent investors at a price of HK\$0.55 per Share;
- (e) the joint venture agreement dated 21 July 2010 entered into between Riche, Campbell Shillinglaw & Partners (Vietnam) Limited and Victory Peace Holdings Limited relating to the setting up of a joint venture company, namely Victory Peace Holdings Limited, engaging in the business of conducting, development and investing into real estate and related projects in Vietnam;
- (f) the facility agreement dated 21 July 2010 entered into between the Company and Victory Peace Holdings Limited relating to the grant of a revolving credit of HK\$700 million by the Company to Victory Peace Holdings Limited;
- (g) the underwriting agreement dated 28 July 2010 entered into between the Company and Kingston Securities Limited in relation to the underwriting arrangement in respect of the proposed issue of not less than 826,584,147 and not more than 879,960,951 new Shares by way of rights to the qualifying Shareholders at a price of HK\$0.40 per new Share on the basis of three new Shares for every one existing Share held on 3 September 2010;
- (h) the conditional subscription agreement dated 21 January 2011 entered into between China Star Entertainment Limited (“**China Star**”) and the Company in relation to the subscription of the convertible bonds of China Star by the Company in the principal amount of HK\$650 million in two tranches at their face value;
- (i) the supplemental agreement dated 28 March 2011 entered into between the Company and China Star relating to the amendments to the subscription agreement dated 21 January 2011 relating to the proposed subscription of the convertible bonds of China Star by the Company;
- (j) the irrevocable undertaking dated 29 March 2011 given by Simple View Investment Limited to China Star, Mansion House Securities (F.E.) Limited and Heung Wah Keung Family Endowment Limited (a) to subscribe for or procure subscription for 200,000,000 new shares of China Star to which Simple View Investment Limited is entitled under the rights issue announced by China Star on 18 April 2011 and (b) not to dispose of and not to exercise the subscription rights attached to the warrants of China Star held by it in an aggregate principal amount of HK\$26.25 million on or before the completion of the rights issue;

- (k) the irrevocable undertaking dated 29 March 2011 given by the Company to China Star, Mansion House Securities (F.E.) Limited and Heung Wah Keung Family Endowment Limited not to dispose of the convertible bonds to be issued pursuant to the subscription agreement dated 21 January 2011 (if issued) and not to exercise the conversion rights attached to the convertible bonds (if issued) on or before the completion of the rights issue on 18 April 2011;
- (l) the Sale and Purchase Agreement;
- (m) the conditional sale and purchase agreement dated 25 May 2011 entered into between Riche and Vartan Holdings Limited pursuant to which Riche has conditionally agreed to acquire and Vartan Holdings Limited has conditionally agreed to sell the entire issue share capital of Adelio Holdings Limited at a consideration of HK\$267.60 million;
- (n) the placing and subscription agreement dated 7 June 2011 entered into between Mr. Lei Hong Wai, the Company and Kingston Securities Limited in relation to the placing of 220,280,000 existing Shares beneficially owned by Mr. Lei Hong Wai at a price of HK\$0.135 per Share and the subscription of 220,280,000 new Shares at a price of HK\$0.135 per Share by Mr. Lei Hong Wai;
- (o) the underwriting agreement dated 7 June 2011 entered into between the Company, Kingston Securities Limited, Mr. Lei Hong Wai and Thought Diamond International Limited in relation to the underwriting arrangement in respect of the proposed issue of not less than 5,510,560,980 new Shares and not more than 6,619,444,395 new Shares by way of open offer to the qualifying Shareholders on the basis of five new Shares for every one existing Share held on 25 July 2011 at a price of HK\$0.04 per new Share;
- (p) the supplemental agreement dated 10 June 2011 entered into between Riche and Vartan Holdings Limited relating to the amendments to the conditional sale and purchase agreement dated 25 May 2011 relating to sale and purchase of the entire issued share capital of Adelio Holdings Limited;
- (q) the master franchise agreement dated 6 July 2011 entered into between Advance Top Limited, a wholly-owned subsidiary of the Company, and アース株式会社 (an unofficial English translation: Az-earth Company Limited and an unofficial Chinese translation: 麵鮮醬油房 周月) relating to the grant of the sole and exclusive rights and master license of franchise business of



selling noodles, drinks and related Japanese food products by アース株式会社 (an unofficial English translation: Az-earth Company Limited and an unofficial Chinese translation: 麵鮮醬油房 周月) to Advance Top Limited in the Greater China Region for a period of ten years commencing from 15 July 2011; and

- (r) the Supplemental Agreement.

## 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Unit 3811, Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the financial years ended 31 December 2008, 2009 and 2010 and the interim report of the Company for the six months ended 30 June 2011;
- (c) the accountants' report of Citadines TST, the text of which is set out in Appendix III to this circular;
- (d) the accountants' report of Citadines TST Management, the text of which is set out in Appendix IV to this circular;
- (e) the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix VI to this circular;
- (f) the valuation report of the Property, the text of which is set out in Appendix VII to this circular;
- (g) the written consents referred to in the paragraph headed "Experts and Consents" to this Appendix;
- (h) the material contracts referred to in the paragraph headed "Material Contracts" to this Appendix;

- (i) a copy of each of the circulars issued by the Company pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules since 31 December 2010, being the date of the latest published audited consolidated accounts of the Group; and
  
- (j) this circular.



## ETERNITY INVESTMENT LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 764)**

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**Meeting**”) of Eternity Investment Limited (the “**Company**”) will be held at Macau Jockey Club, 1/F Function Room, 1st Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Thursday, 3 November 2011 at 3:00 p.m. for the purposes of considering and, if thought fit, passing with or without modifications, the following resolution as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

“**THAT:**

- (a) the conditional sale and purchase agreement dated 4 April 2011 entered into between Citadines Ashley TST (Singapore) Pte. Ltd. and Golden Stone Management Limited (the “**Sale and Purchase Agreement**”) in relation to the sale and purchase of the entire issued share capital of Citadines Ashley TST (Hong Kong) Limited and Citadines Ashley TST Management (Hong Kong) Limited (a copy of which is tabled at the Meeting, marked “A” and initialed by the chairman of the Meeting for identification purpose), and the deed of assignment to be executed by Ascott Holdings Limited for the assignment of the intermediate holding company loans to Golden Stone Management Limited (the “**Deed of Assignment**”) contemplated thereunder (a copy of which is tabled at the Meeting, marked “B” and initialed by the chairman of the Meeting for identification purpose), and the terms of and the transactions contemplated thereunder (the “**Acquisition**”) and all such documents ancillary thereto be and is hereby approved, confirmed and ratified; and

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## NOTICE OF SPECIAL GENERAL MEETING

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- (b) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents and to do all such acts or things incidental to, ancillary to or in connection with the Acquisition.”

By Order of the Board  
**Eternity Investment Limited**  
**Lei Hong Wai**  
*Chairman*

Hong Kong, 17 October 2011

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place of business*

*in Hong Kong:*  
Unit 3811  
Shun Tak Centre, West Tower  
168-200 Connaught Road Central  
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's branch share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he/she/it so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.